

GENERAL GOVERNMENT DEBT 2009

CONTENTS

INTRODUCTION

I. LITHUANIA'S ECONOMIC DEVELOPMENT

Macroeconomic Review

Credit Ratings

II. GOVERNMENT BORROWING STRATEGY

III. GOVERNMENT BORROWING

Government Borrowing Requirement and Financial Market Conditions

Borrowing in Financial Markets

Borrowing in the Domestic Financial Market

Borrowing in Foreign Financial Markets

Government Borrowing from International Financial Institutions

State Guarantees and Loans Extended

IV. DEBT LEVEL, STRUCTURE AND DYNAMICS

General Government Debt

Central Government Debt

Central Government Domestic Debt

Central Government Foreign Debt

Debt Servicing Costs

V. DEBT LIMITS AND RISK MANAGEMENT

Limits

Exchange Rate Risk

Interest Rate and Refinancing Risks

Market Risk Management Models

GLOSSARY

LEGAL FRAMEWORK

I. LITHUANIA'S ECONOMIC DEVELOPMENT

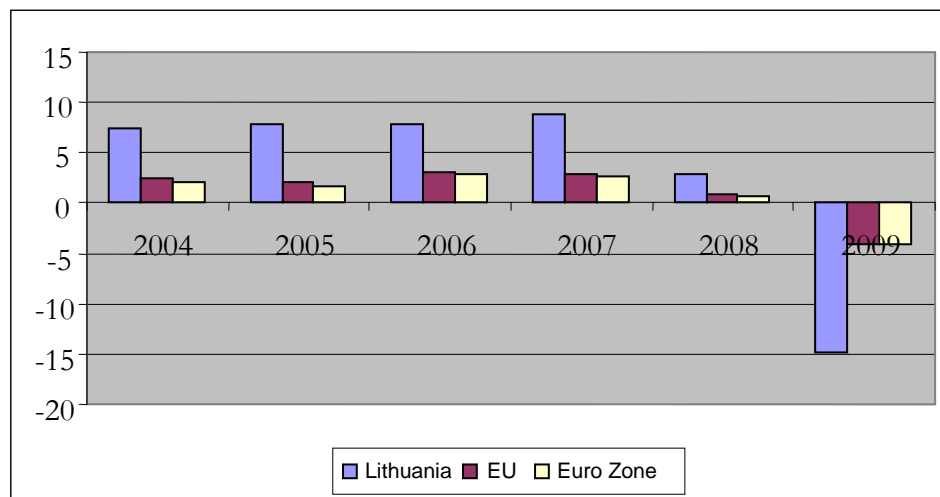
[Back to Contents](#)

Macroeconomic Review

The financial upheaval which began in the United States in late July 2007 and became widespread in August 2008, provoked an economic downturn among Lithuania's trading partners in the EU and other markets. As a result, the foreign demand for Lithuanian goods and services declined. High uncertainty about the general situation combined with this drop of external demand accelerated the decrease of GDP in 2009. Nonetheless, during the third and fourth quarters of 2009, Lithuania's GDP increased on a quarterly basis (excluding seasonal and working day effects), so that, technically, the country was coping with the recession.

The Statistics Department reports that 2009 gross domestic product totalled 92016.1 million litas at current prices and, compared with 2008, decreased 14.8%. The largest drop in value added was observed during the second quarter of last year.

Chart 1. GDP growth in Lithuania and the European Union, %



Source: Eurostat

During 2009, a slight increase of value added was observed only in agriculture, forestry and fishing (3.1%). Value added fell most in the construction industry (43.3%), in trade, transport and communications services (16.8%), and in the industrial and energy sector (13.9%). The value added decrease was slower in areas such as governance and defence, education, healthcare and social work (2.8%).

As the economy slowed, incomes also tended to decrease, which had a corresponding impact on consumer spending and import trends. Real household consumption expenditures in 2009 shrank by 16.8%, while exports of goods and services decreased more slowly (14.3%) than imports (29.4%). The drop in household consumption spending was influenced by reduced wages (the average real wage in the country shrank by 8.4% during the year) and the jump in the unemployment rate to 13.7% (from 5.8% in 2008). Public sector real consumption expenditures also decreased (by 1.2%) in 2009 as the Government implemented a policy of budget consolidation.

The general government debt increased from 15.6% of GDP in 2008 to 29.5% of GDP in 2009, remaining significantly below the established Maastricht criteria (60% of GDP). Last year's general government deficit, according to the *excessive deficit procedure* (EDP) methodology, was 8.9% of GDP, as tax revenues shrank due to the economic recession. In the spring of 2009, the European Commission proposed to the EU Council that it extend by one year, until 2012, the deadline by which Lithuania must correct its excessive budget deficit situation. According to a new EU Council recommendation of 16 February 2010 regarding correction of the excessive public sector deficit situation, Lithuania's average annual fiscal effort in 2010-2012 should be 2.25% of GDP. By comparison, the consolidation measures implemented in 2009 and planned in 2010 make up 12% of GDP.

Because Lithuania's economy is small and open, rapid growth of domestic demand in recent years caused both the import and current account deficits to widen. But in 2009, according to preliminary data, the current account balance was in surplus and totalled 3.8%. This shows the previous economic imbalance has disappeared.

Annual inflation in December 2009 (December 2009 compared with December 2008) was 1.2%, which is 7.3 percentage points lower than in 2008. The annual inflation rate was mainly influenced by a 4.4% drop in the prices of food products and non-alcoholic beverages during 2009, as well as by a 5.6% decline of prices for housing and utilities goods and services, and a 9.5% increase in the cost of transportation services.

Lithuania's foreign trade deficit in 2009 totalled LTL 4.4 billion and was 74.8% smaller than in 2008. Goods were exported last year for LTL 40.7 billion and imported for LTL 45.1 billion, with exports and imports shrinking 26.2% and 38.2%, respectively. Excluding mineral products, exports fell by 23.3% and imports by 38%. Exports of goods of Lithuanian origin declined 27.2%, or 21.9% if mineral products are excluded.

Lithuania's most important export partners in 2009 were Russia (13.2%), Latvia (10%), Germany (9.7%) and Poland (7.2%). The most important import partners were Russia (30.1%), Germany (11.2%), Poland (10%) and Latvia (6.4%).

Table 1. Macroeconomic Indicators

Indicators	2004	2005	2006	2007	2008	2009
Real GDP growth,%	7,4	7,8	7,8	9,8	2,8	-14,8
Inflation (average annual),%	1,2	2,7	3,8	5,8	11,1	4,2
Inflation (annual),%	2,9	3,0	4,5	8,2	8,5	1,3
Current Account balance,% of GDP	-7,7	-7,1	-10,6	-14,5	-11,9	3,8
Unemployment rate,% (according to labour force survey data)	11,4	8,3	5,6	4,3	5,8	13,7
Growth of exports of goods based on customs declarations data,%	21,4	26,9	18,7	11,1	28,5	-26,6
Growth of imports of goods based on customs declarations data,%	16,8	25,5	23,5	15,4	18,7	-38,2

Source: Department of Statistics, Bank of Lithuania

Credit Ratings

[Back to Contents](#)

A credit rating is an important indicator for assessing the risk of default by an issuer (borrower). For investors (creditors), the rating is an indicator of the borrower's level of reliability. For an issuer, meanwhile, the higher the credit rating assigned, the lower the interest rate (risk premium) and so the cheaper it is to borrow.

During 2009 all three international credit rating agencies lowered Lithuania's long-term ratings for foreign currency debt. Standard & Poor's and Fitch Ratings lowered the ratings from BBB+ to BBB, while Moody's reduced its rating from A2 to Baa1. All the agencies left in place a negative ratings outlook. The most noteworthy factors which influenced the decisions of the ratings agencies were the worsening prospects for the Lithuanian economy and the corresponding deterioration of the country's fiscal indicators, as well as the dependence of borrowing possibilities on the financial market. Although the ratings were lowered, Lithuania remained in the group of investment-grade countries. In August 2009, Standard & Poor's announced an additional review of Lithuania's long-term debt ratings in view of a possible negative rating change. However, because of the Government's firm commitments to discipline in managing public finances, Lithuania's credit ratings were not lowered a second time. With Lithuania undergoing an economic recession, greater attention of credit rating agencies was clearly felt in 2009. The agencies' greater interest is shown, in part, also by the increased frequency, compared with earlier periods, of visits to Lithuania or conference calls by representatives of the agencies seeking to receive Lithuania's newest economic data.

II. GOVERNMENT BORROWING STRATEGY

[Back to Contents](#)

In September 2009, the Government revised its borrowing and debt management strategy. In light of laws on financial sustainability, on special government guarantees for export credit insurance and on science and studies, which were adopted by the Seimas of the Republic of Lithuania, a new maximum limit for loans with government guarantees was fixed at 7% of GDP. Concrete actions and timeframes were also foreseen with regard to preparation of the legal framework for accumulating funds in order to reduce risk related to future repayment of large-scale debt (redemption of Eurobonds). The most important medium-term objective of the policy on managing the Lithuanian Government's borrowing (and the debt liabilities assumed in the name of the state), is to ensure that borrowing (to finance government expenditures under the laws of the Republic of Lithuania and to refinance debt liabilities) is done at the lowest possible cost and an acceptable medium-term risk, in accordance with the requirements applied to European Union Member States striving for Euro adoption.

Regarding its medium-term borrowing and debt management, the Government undertakes:

- 1) to seek acceptable medium-term interest-rate, refinancing and exchange-rate risk, taking account of international practices and the expected Government borrowing need in the near term as well as the actual values of risk indicators;
- 2) to seek liquidity for government securities;
- 3) to maintain acceptable risk for indeterminate State borrowing commitments;
- 4) to manage public financial resources more effectively;
- 5) to develop means for accumulating financial resources to repay large-scale debt.

During 2009 and in keeping with its borrowing and debt management strategy, the Government financed the main part of its borrowing requirement by issuing securities in domestic and foreign markets. Short-term debt instruments were used to balance Government cash flows. During 2009 the Government sold two large securities issues in foreign capital markets, raising EUR 500 million in June and USD 1.5 billion in October. The exchange-rate risk created by these government security issues was eliminated through the use of financial derivatives, as foreseen in the Government's medium-term borrowing and debt management strategy.

III. GOVERNMENT BORROWING

[Back to Contents](#)

Government Borrowing Requirement and Financial Market Conditions

Government borrowing during 2009 totalled LTL 13.8 billion (LTL 10.7 billion more than in 2008). During the year LTL 4.3 billion of debt was repaid. Borrowing needs increased as budget revenues shrank and the public sector deficit widened due to the sharp economic decline. Moreover, as wages fell and unemployment rose, the State Social Insurance Fund budget deteriorated. The Lithuanian Government borrowed LTL 2.9 billion in 2009 just to balance the cash flows of the State Social Insurance Fund Board.

The turmoil in financial markets which began during 2008 continued in 2009. At the start of 2009, despite the rescue packages for financial institutions that were announced by governments, a great deal of volatility was observed in capital markets. Investors sought to reduce the risk of portfolios under their management and so preferred to buy short-term government securities with lower-risk, such as those issued by countries with more stable economies like Germany and France.

Large government borrowing needs even in the euro zone fuelled doubts about the governments' ability to ensure financing without raising the yields on government securities. For that reason, strategies for placing securities were applied with flexibility, utilizing a variety of not always standard placement forms and organizing frequent auctions of government securities that were tailored to the needs of investors. Investors' caution regarding investments caused an increase in risk premiums for government securities.

The situation in the markets improved in the second quarter of 2009 as volatility subsided and investors were willing to assume greater risk. Consequently, there was a reduction of risk premiums in yield spreads between German and other governments' securities, which in turn led to a reduction of risk premium differences between government and corporate securities.

In light of the greater than expected slowdown of the world economy, governments began in the first half of 2009 to announce economic stimulus plans, which correspondingly increased their borrowing needs. During the second half of the year, as market volatility subsided and demand revived for securities with a greater variety of maturities, governments returned to traditional borrowing forms and standard security maturities.

The improvement of the situation in the secondary market was on a smaller scale than that in the primary market. Throughout the year, secondary market liquidity remained smaller than it had been before the turmoil in financial markets began.

Borrowing in Financial Markets

Despite the complicated situation in financial markets, in 2009 just as in previous years the Government borrowed on behalf of the State in domestic and foreign markets by issuing government securities and taking loans from banks and international financial institutions.

Borrowing took place in keeping with the Government debt management strategy of borrowing in litas or euros, or in another currency subject to hedging with financial derivatives

so that future repayments might be made in litas or euros. It was decided last year to take advantage of the opportunity to borrow relatively cheaply from international financial institutions and to react with flexibility to investors' demand for government securities.

Government securities were the main instrument used for borrowing by the Government of the Republic of Lithuania in 2009. At 31 December 2009, outstanding government securities accounted for 89% of the total central government debt.

The financial crisis which spread around the world in 2009 had a negative impact on Lithuania's open economy. The country's rapidly declining gross domestic product reduced tax revenues and increased the public sector deficit. The crisis caused an increase in both borrowing costs and borrowing needs, which – seeking to balance government cash flows – were satisfied mainly through short-term debt instruments. In auctions and private placements of government securities as well as sales of Lithuanian Government savings notes, a total of LTL 4,998.1 million was borrowed on the domestic market during 2009 and LTL 6,135.2 million was borrowed in foreign markets (22.75% more than on the domestic market).

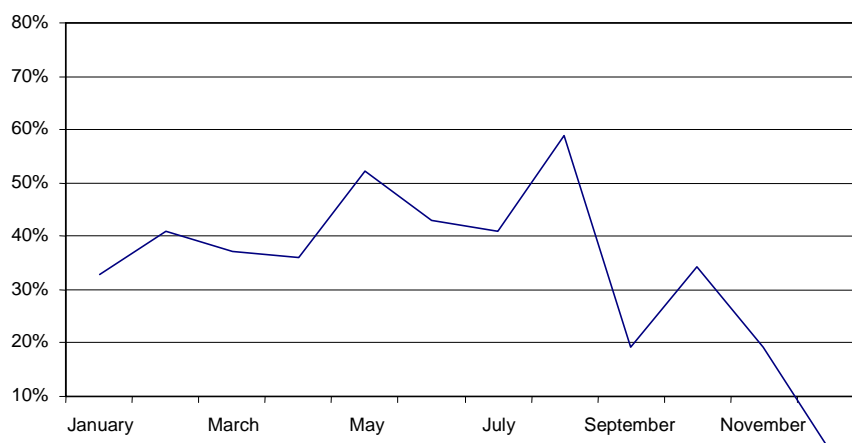
Borrowing in the Domestic Financial Market

The State borrowed on Lithuania's internal market in 2009 by issuing Government bonds and Treasury bills. During the year, sales of Lithuanian Government savings notes were renewed.

Lithuanian government securities were sold during 2009 in auctions and by private placement. Savings notes were sold through a specialized web site (www.vtl.lt) and retail distribution chain (offices of the postal company AB Lietuvos Paštas). The Ministry of Finance planned auctions of government securities and fixed the terms of offered securities. Beginning 1 February 2009, auctions took place on the NASDAQ OMX Vilnius exchange. Only banks and financial brokerage companies that met Finance Ministry requirements for auction participants and had signed the relevant agreement with the ministry could participate in auctions. In 2009, such agreements had been signed by 6 auction participants, all of whom were resident in Lithuania.

In 2009 auctions, participants bid to purchase government securities for LTL 5,860.0 million.

Chart 2. Ratio of Government Securities Issued in 2009 Auctions against Bids Received,%



Source: Ministry of Finance

Since borrowing in 2009 was mostly involved short-term Government security sales, more and larger bids were submitted for Treasury bills than for bonds in auctions during the year. Treasury bill auctions attracted an average of 42 bids for a total, on average, of LTL 52.3 million. The most bids were received in the auction of 14 September 2009 (LTL 292.9 million), while the largest sum was borrowed in the auction of 17 August 2009 (LTL 120 million). The largest bid-to-cover ratio (85.5%) occurred in the same auction of 17 August 2009, at which bids were submitted for LTL 140.3 million of government securities while LTL 120.0 million of the securities were sold. The smallest bid-to-cover ratio (10.2%) was at the auction on 14 September 2009, when bids for LTL 292.9 million of government securities were submitted and LTL 30.0 million of the securities were sold. During 2009, 3.6 times more auctions were held than in 2008. This increase in the number of auctions was due to the Government's increased borrowing needs and the effort to create the best possible conditions for domestic and foreign investors to acquire government securities.

The Ministry of Finance held 43 auctions of government securities during 2009, including:

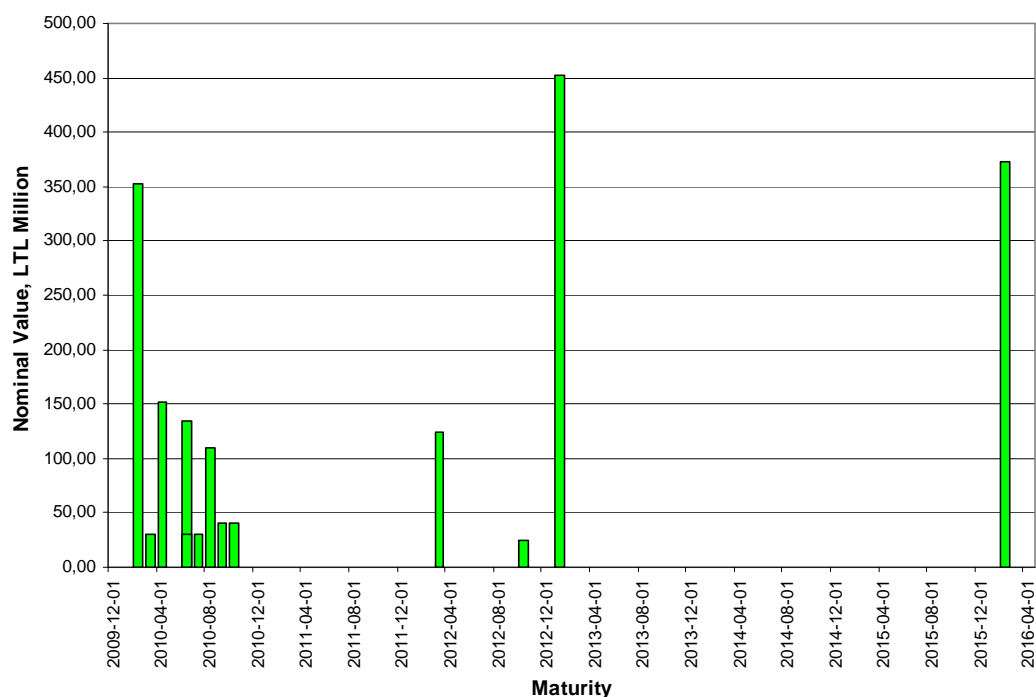
- 1 auction of bonds with a maturity of 3 years;
- 19 auctions of Treasury bills with a maturity of 12 months;
- 8 auctions of Treasury bills with a maturity of 9 months;
- 13 auctions of Treasury bills with a maturity of 6 months;
- 2 auctions of Treasury bills with a maturity of 3 months.

At 31 December 2009, there were 20.9% less outstanding short-term litas-denominated government securities than a year earlier. The volume of long-term litas-denominated securities decreased 12.9% and, at the end of 2009, exceeded the volume of short-term securities by about 83.7%. (There were LTL 1,360.1 million of long-term government securities and LTL 740.4 million of short-term government securities.)

The nominal value of debt for litas-donominated government securities at the end of 2009 was LTL 2,100.6 million, including securities sold in auctions and private placements, as well as savings notes.

At the end of 2009, 13 non-redeemed issues of auctioned government securities were in circulation, of which 5 were bonds and 8 were Treasury bill issues.

Chart 3. Outstanding Government Securities Issues at 31 December 2009

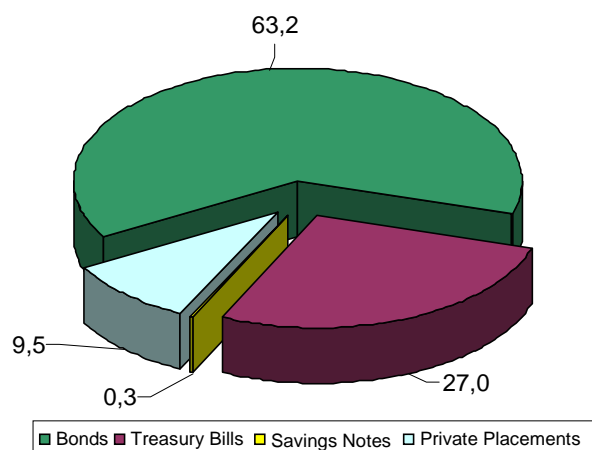


Source: Ministry of Finance

Compared with earlier years, there were fewer issues in circulation (in 2002 there were 29 issues, in 2003 – 33, in 2004 – 30, in 2005 – 27, in 2006 – 15, in 2007 – 13, and in 2008 – 14), however their value was higher, which means greater liquidity.

At the end of 2009, the nominal value of bonds of all maturities that had been sold in auctions but not yet redeemed was LTL 1,327.1 million (63.2% of all outstanding auctioned government securities). The nominal value of unredeemed Treasury bills was LTL 567 million (27.0%). See chart 4. Additionally, government securities were also sold during the year to large investors, including LTL 200 million of litas-denominated government securities and LTL 2,354.1 million of securities denominated in other currencies. Between 19 May 2009 when sales of savings notes were reintroduced, and the end of 2009, a nominal LTL 6.43 million of 1-year savings notes were placed.

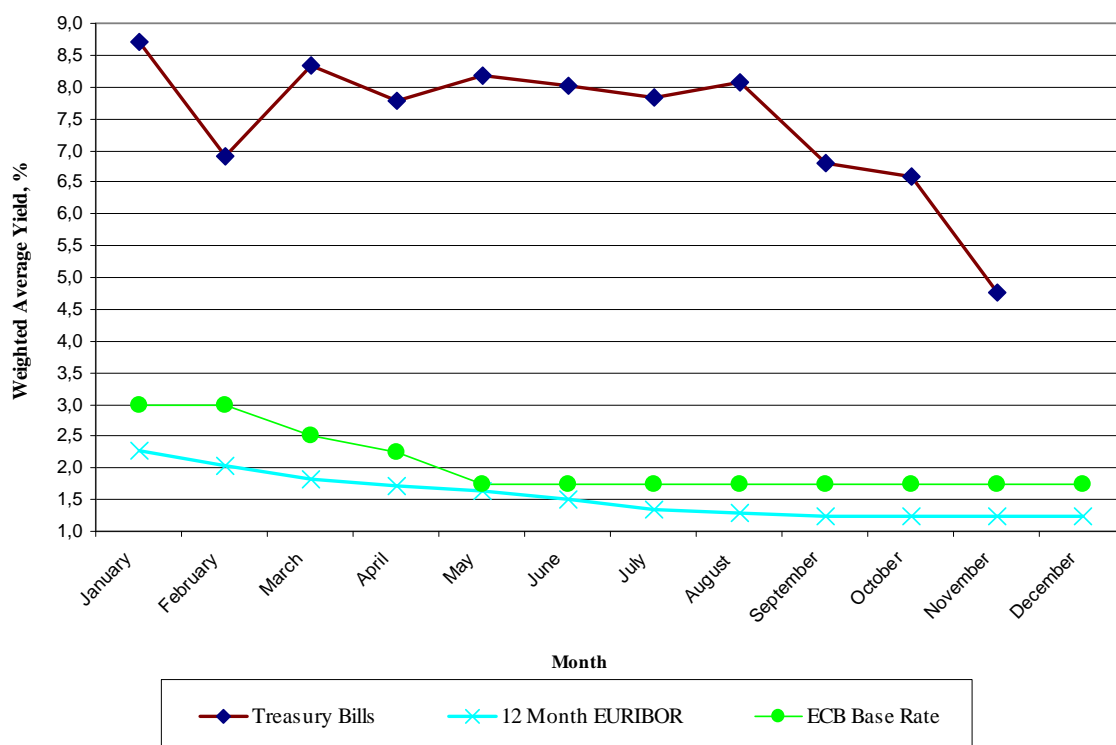
Chart 4. Structure of Litas-Denominated Government Securities at 31 December 2009, %



Source: Ministry of Finance

Seeking to maintain stable debt servicing costs, in the domestic market in 2009 the State continued to borrow only at fixed interest rates (see chart 5).

Chart 5. Government Securities Yields and Key Interest Rate Indicators in 2009



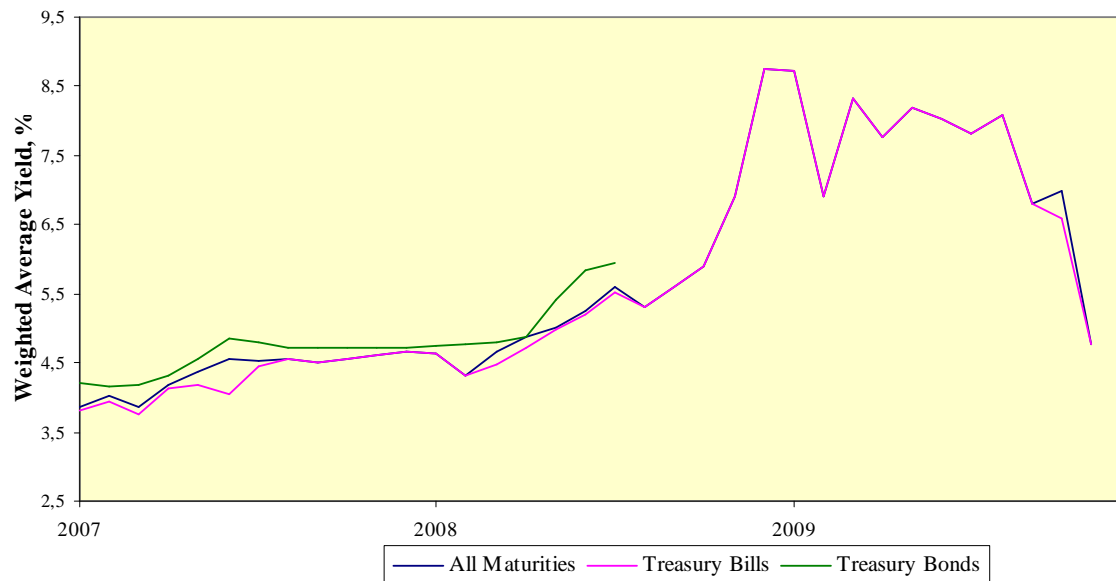
Source: Ministry of Finance, Bloomberg

The weighted average yield on government securities in 2009 was higher than in 2008. The increase, however, was caused by the fact that the interbank interest rates at which Lithuanian banks were willing to lend litas to other banks (VILIBOR) were relatively higher than in 2008.

The weighted average annual yield on government securities of all maturities sold by auction during 2009 was which was influenced by rising yields on debt instruments in international

markets and increased to 7.8%, compared with 6.2% in 2008. (See chart 6.) The weighted average annual yield on Treasury bills increased from 6.3% in 2008 to 7.8%, while that of bonds rose from 5.3% to 7.6%.

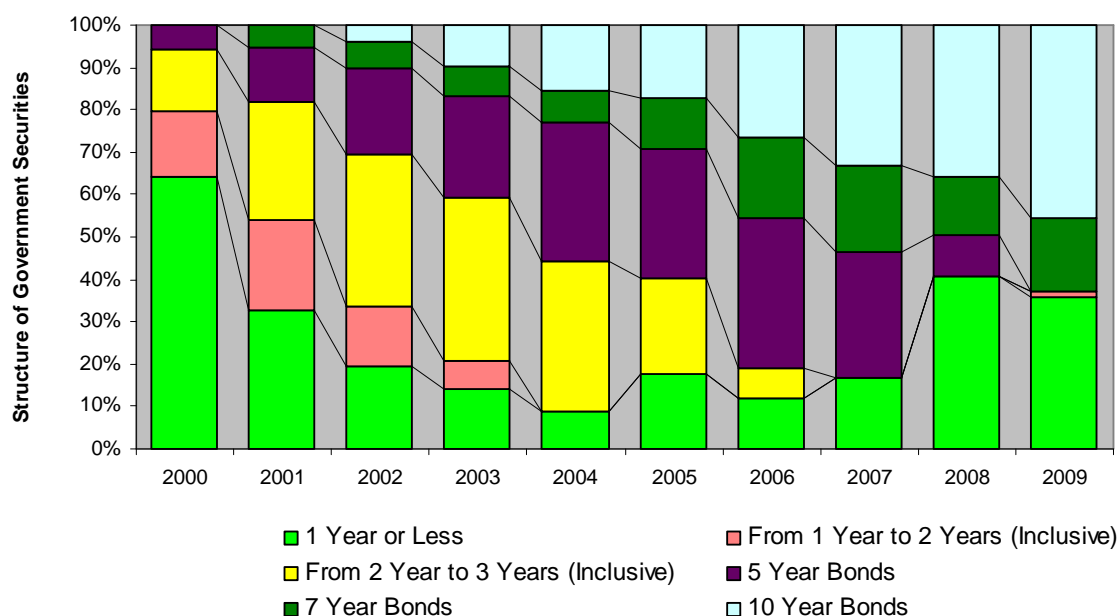
Chart 6. Yields on Litas-Denominated Government Securities in 2007-2009



Source: Ministry of Finance

The average time to maturity of outstanding litas-denominated government securities was 1,945 days at the end of 2009, compared with 1,648 days at the end of 2008. The change was influenced by the fact that during 2009 the size of Treasury bill issues decreased. (At the end of 2009, Treasury bills accounted for 29.9% of all litas government securities, compared with 40.7% at the end of 2008.)

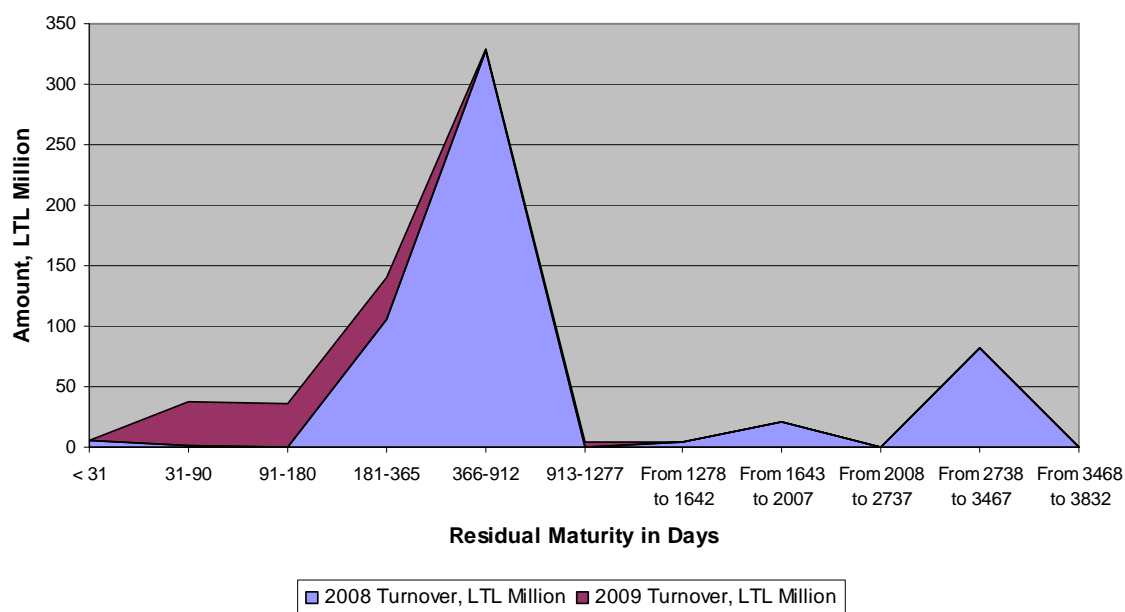
Chart 7. Distribution of Government Securities by Nominal Maturity in 2000-2009



Source: Ministry of Finance

Secondary trading in auctioned government securities can be effected on the NASDAQ OMX Vilnius exchange (hereafter, “the Exchange”), according to its established rules, as well as outside the Exchange. Secondary market turnover of Government security issues on the exchange in 2009 totalled LTL 115.1 million, which was LTL 431.1 million less than in 2008.

Chart 8. Government Securities Trading on Vilnius Stock Exchange by Residual Maturity



Source: NASDAQ OMX Vilnius

The volume of secondary market trading of government securities decreased as the number of government securities in circulation decreased and most investors who acquired the securities sought to hold them to maturity rather than trade them.

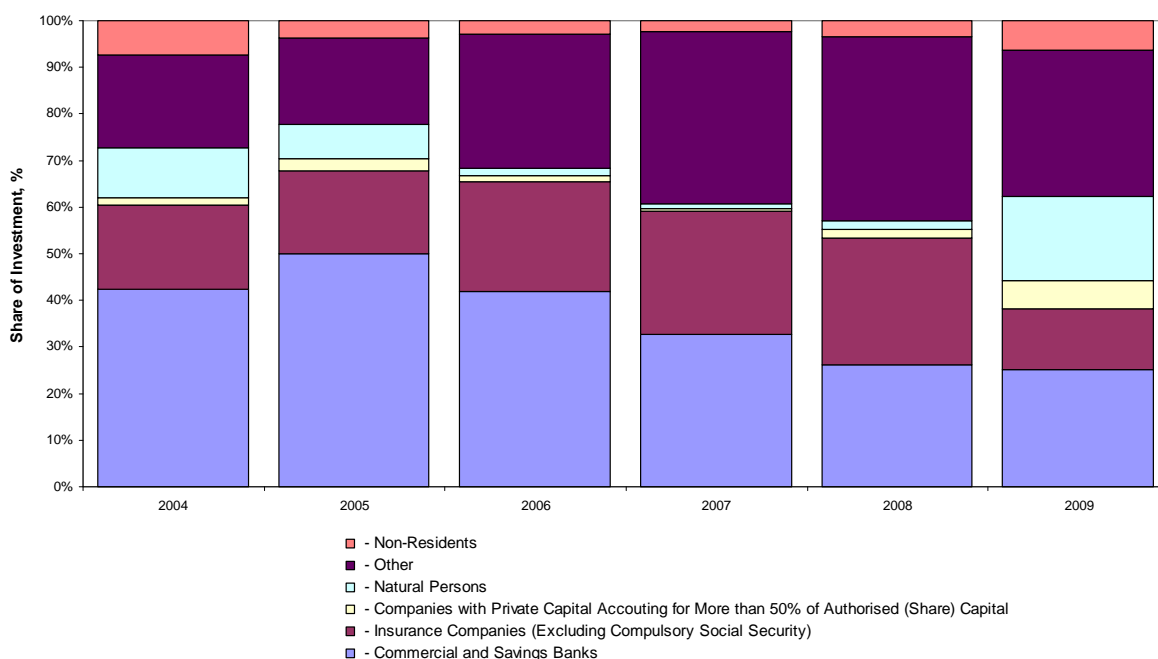
Due to the small volumes and the uncertainty of the country's financial situation, trading of government securities on the Exchange in 2009 involved large yield fluctuations. The maximum Government security yield on the Exchange during 2009 was 14.5%, while the minimum was 0.65%.

Foreign investors held 6.41% of all litas-denominated government securities in circulation at the end of 2009, up from 2.06% a year earlier. Investors from Estonia held LTL 255.67 million of Lithuanian government securities at the end of 2009, while investors from Latvia held LTL 56.99 million and investors from Finland held LTL 3.47 million.

Among local investors, most of the government securities in circulation belonged to financial auxiliaries and monetary financial institutions (excluding the Bank of Lithuania). Financial auxiliaries held 20.92% of government securities in 2009, down from 29.44% in 2008, while the portion of the securities held by financial institutions decreased during the year from 26.22% to 25.13%.

Household investments accounted for 18.84% of all Government security holdings at the end of 2009, up from just 1.80% a year earlier. Non-resident households held 1.17% of the securities as of 31 December 2009.

Chart 9. Investments in Lit-denominated Government Securities in 2004–2009



Source: Lithuanian Central Securities Depository

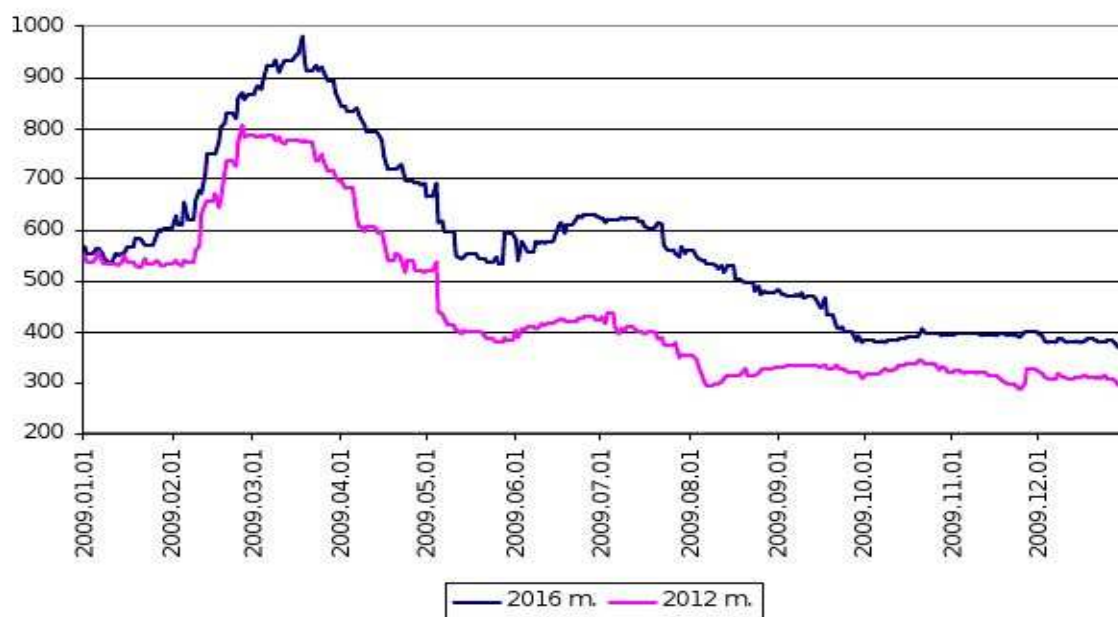
Borrowing in Foreign Financial Markets

Continuing financial market instability in the first quarter of 2009 forced the Ministry of Finance to adjust its borrowing strategy. During the first quarter, more was borrowed through private placements. Borrowing by issuing securities in foreign markets resumed at the end of the second quarter. A loan that had been taken in foreign markets in 2008 was in 2009

converted to securities, two private placement issues were increased, and two bond issues were also brought to market.

Due to high volatility in the markets and investors' very selective attitude, in February and March of 2009 risk premiums increased in the yield spreads between German and other governments' securities. The situation in the markets improved during the second quarter of 2009, when volatility subsided, investors agreed to take on greater risk and, as a result, risk premiums shrank.

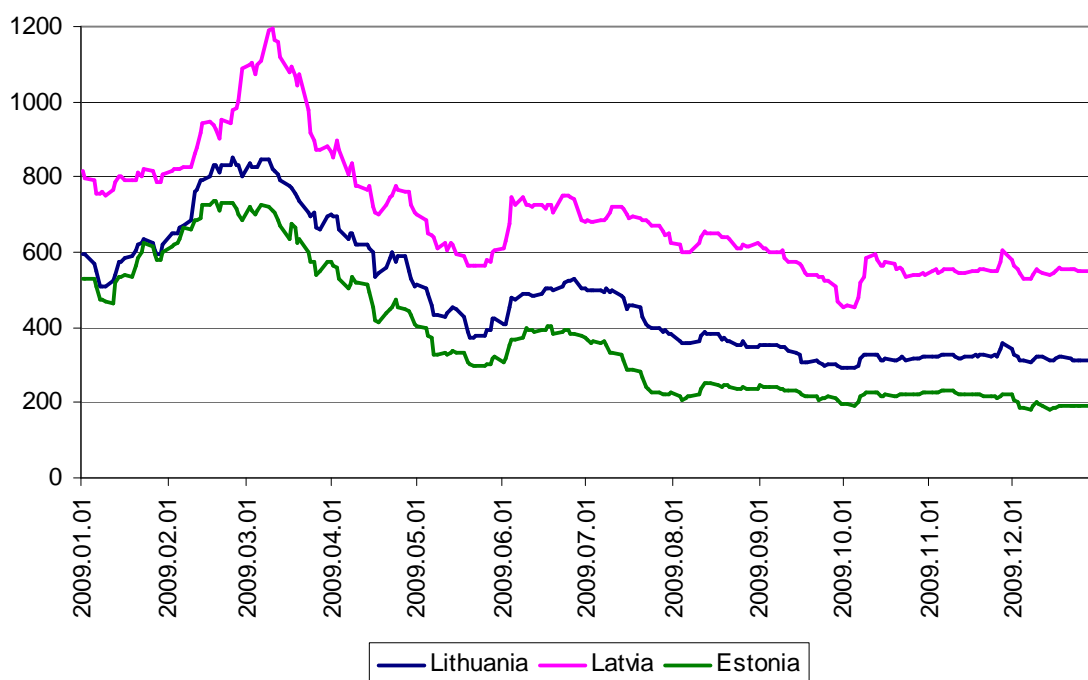
Chart 10. Risk Premiums for Lithuanian Eurobonds Maturing in 2012 and 2016 as Measured Against German Government Bonds of the Same Maturity, basis points



Source: Bloomberg

The dynamics of risk premiums on Lithuanian versus German government securities during 2009 corresponded to Lithuania's credit default swap (CDS) levels.

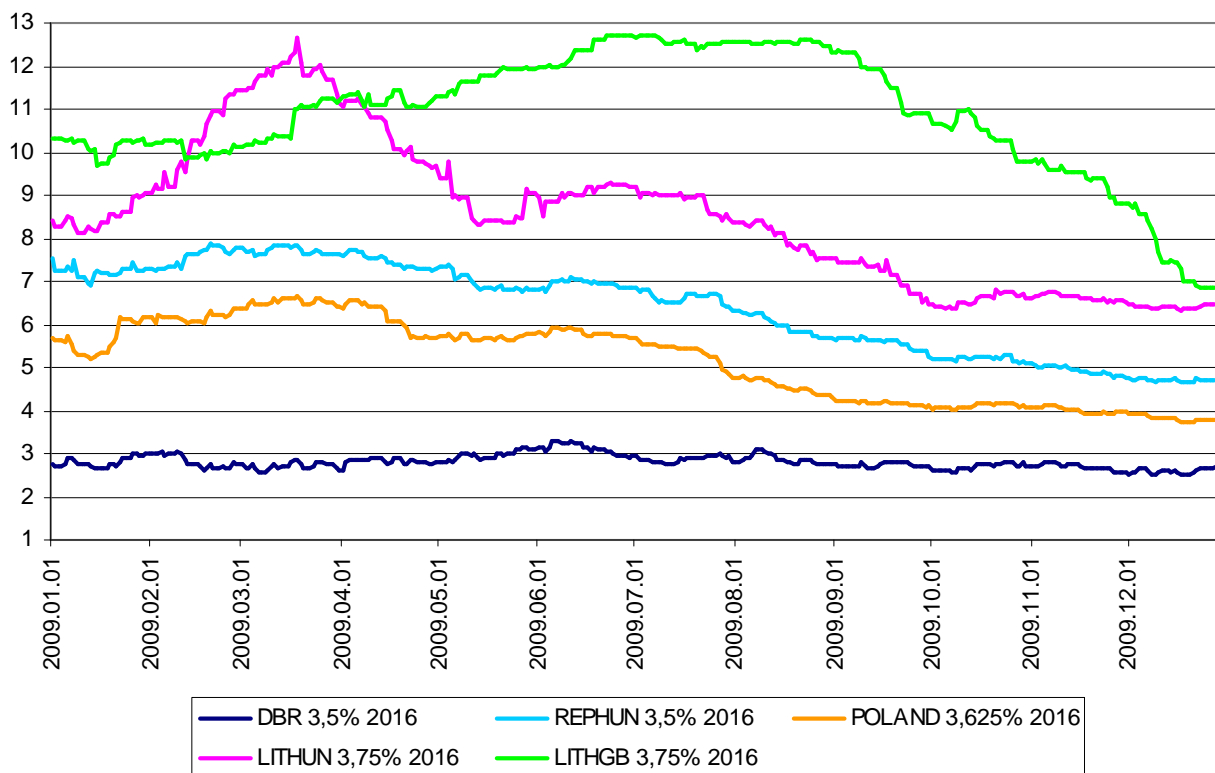
Chart 11. Lithuanian, Latvian and Estonian 5-year CDS levels in 2009, basis points



Source: Bloomberg

Secondary market yields on nominal 10 to 11-year Lithuanian government bonds are shown in chart 12 with comparisons against other Eurobonds of similar maturity.

Chart 12. Yields on Bonds¹ Maturing in 2016, %

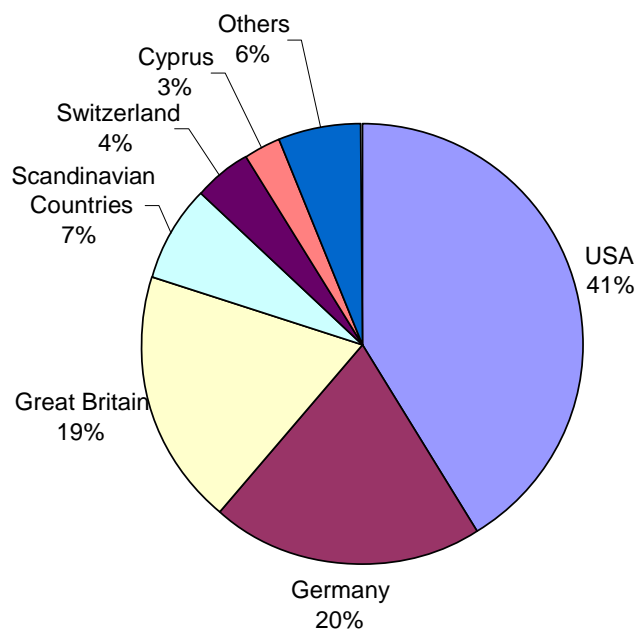


¹ DBR – German government bond (10 year nominal maturity), REPHUN – Hungarian Eurobond (10 year nominal maturity), POLAND – Polish Eurobond (10 year nominal maturity), LITHUN – Lithuanian Eurobond (11 year nominal maturity), LITHGB – Lithuanian domestic bond (11 year nominal maturity).

Source: Bloomberg

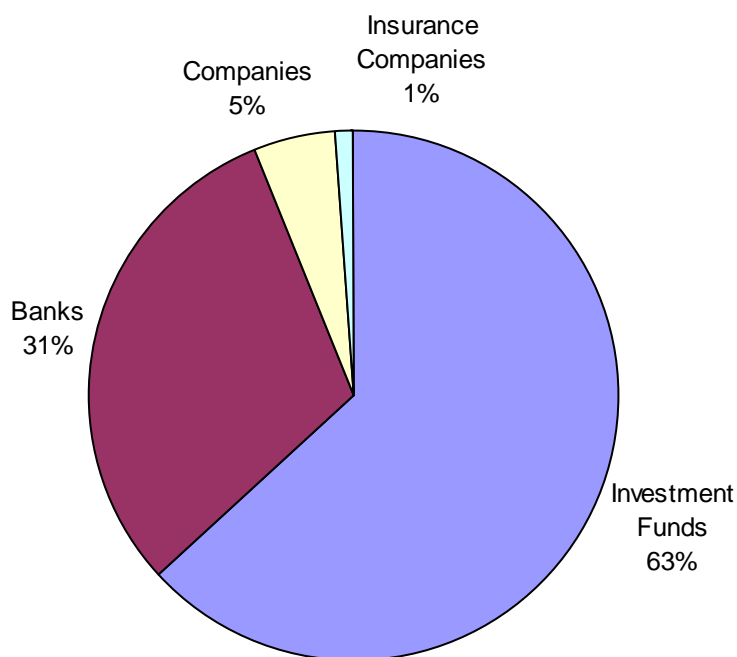
In June 2009, following presentations to investors in London, Zurich, Vienna, Paris and Frankfurt, the Ministry of Finance, representing the Government of the Republic of Lithuania and using the intermediation services of banks Credit Suisse, Citi and RBS, successfully placed in international markets a nominal EUR 500 million issue of 9.375% bonds maturing in 2014. It was Lithuania's first public issue of securities in foreign markets since October 2007. Below is the distribution of the investors who bought the 2014 Eurobonds, by geographic location and type.

Chart 13.
Geographical Distribution of
Investors in 2014 Eurobond



Source: Ministry of Finance

Chart 14. Distribution of Investors in 2014 Eurobond by Type



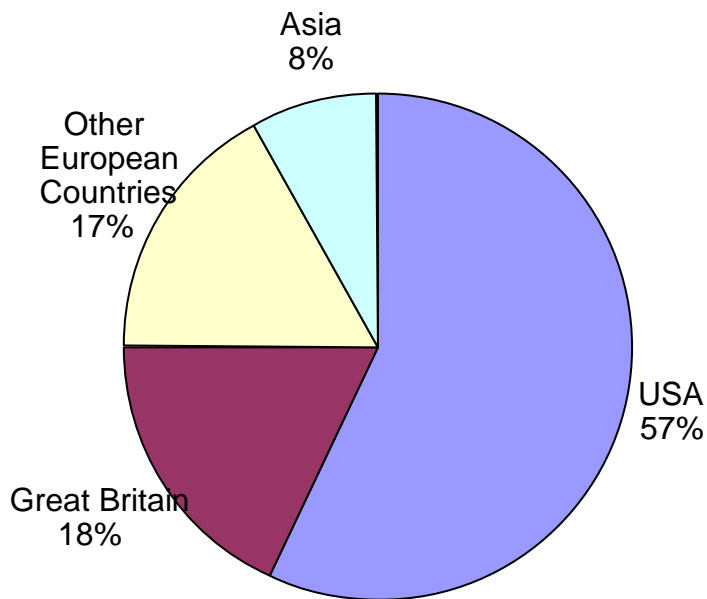
Source: Ministry of Finance

Compared with earlier Eurobond sales, this issue attracted more U.S. investors and greater regional diversification of investors. Most of the issue was bought by high quality investors, who tend to hold securities until maturity rather than speculate with them. More than 80 large investors submitted bids to buy the securities during the initial placement.

In October 2009, the Ministry of Finance, representing the Government of the Republic of Lithuania and using the intermediation services of banks HSBC and RBS, successfully placed in international markets a nominal USD 1.5 billion issue of 6.75% bonds maturing in 2015. It was the largest issue of government securities since the restoration of Lithuania's independence, and the country's first issue of bonds denominated in U.S. dollars since 1997.

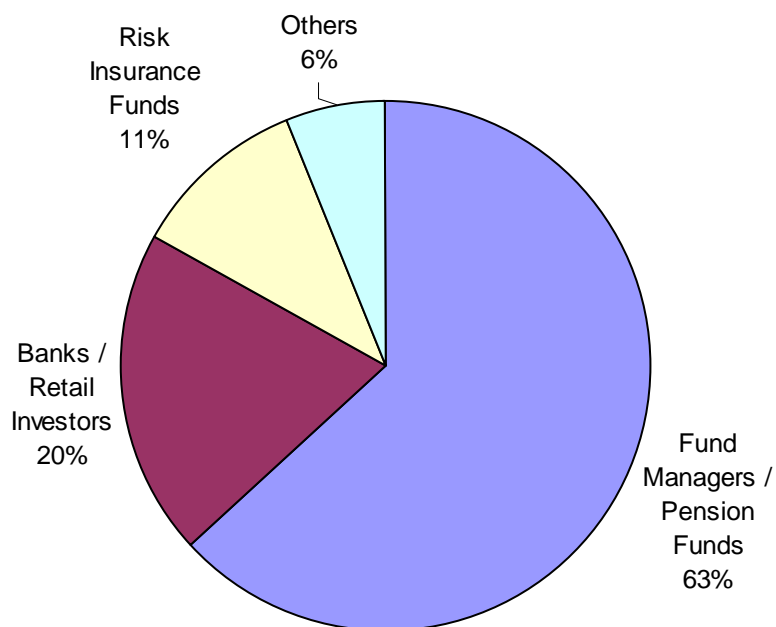
The bond issue was brought to market after a 4 day presentation of Lithuania to current and potential investors in New York, San Francisco, Los Angeles, Boston and London. The issue was denominated in U.S. dollars because at the time there was greater liquidity and stronger demand for Lithuanian government securities in the U.S. market, and also as a way to attract new investors. Demand for more than USD 5.5 billion of the issue was expressed by 265 large investors. Below is the distribution of the investors who bought the 2015 Eurobonds, by geographic location and type.

Chart 15. Geographical Distribution of Investors in 2015 Eurobond



Source: Ministry of Finance

Chart 16. Distribution of Investors in 2015 Eurobond by Type



Source: Ministry of Finance

U.S. investors bought more than half (57%) of the bond issue. In terms of investor types, the distribution was very similar to that of the euro-denominated bond placed earlier in the year.

The entire bond issue was hedged using cross-currency swap operations.

The following table lists all the Lithuanian Eurobonds that were in circulation at the end of 2009:

Table 2. International Bond Issues in Circulation at the End of 2009

ISIN Code	Total Size of Issue (millions)	Currency	Issue Date	Maturity Date	Coupon Size (percent)
XS0147459803	1000	EUR	2002 05 10	2012 05 10	5,875
XS0163880502	1000	EUR	2003 03 05	2013 03 05	4,500
XS0435153068	500	EUR	2009 06 22	2014 06 22	9,375
XS0457764339	1500	USD	2009 10 15	2015 01 15	6,75
XS0410083934	162	EUR	2009 01 29	2015 12 09	9,95
XS0212170939	1000	EUR	2005 02 10	2016 02 10	3,750
XS0327304001	600	EUR	2007 10 29	2018 02 07	4,85
XS0485991417	2000	USD	2010 02 11	2020 02 11	7,375
XS0406581222	175	EUR	2008 12 23	2021 12 20	variable

Source: Ministry of Finance

Government Borrowing from International Financial Institutions

During 2009 the Republic of Lithuania signed two loan agreements with international financial institutions regarding:

- a loan of EUR 1132 million from the European Investment Bank for co-financing of EU funds during 2007-2013;
- a EUR 100 million loan from the Nordic Investment bank to finance the renovation of public buildings and a programme to modernize apartment houses.

The sum of loans from international financial institutions taken in the name of the Lithuanian Government and not yet repaid increased by LTL 2,523.44 million during 2009.

At the end of 2009, the residual amount of loans which must be repaid to the European Investment Bank, the Nordic Investment bank and the Council of Europe Development Bank totalled LTL 2,826.18 million. The central government debt to these institutions constituted 14.9% of all central government foreign debt as of the end of 2009.

State Guarantees and Loans Extended

State guarantees were given during 2009 to AB Bankas Snoras, AB Šiaulių Bankas, AB „Swedbank“ and AB DnB NORD Bankas, which grant loans to students to cover tuition, living costs and fees for partial studies under international agreements. At the end of 2009, the balance of student loans with State guarantees was LTL 9.1 million.

The overall balance of outstanding loans with state guarantees, including loans guaranteed by guarantee institutions, totalled LTL 1,269 million at the end of 2009, or LTL 15.6 million less than at the start of the year. Indirect commitments related to loans with State guarantees decreased by 1.2% during 2009.

Foreign loans taken with Lithuanian State guarantees totalled LTL 181.9 million at the end of 2009, or 14.3% of all loans guaranteed by the State. Domestic loans taken with State

guarantees totalled LTL 327.2 million, or 25.8% of all loans guaranteed by the State. Domestic loans taken with guarantees by guarantee institutions totalled LTL 759.9 million, or 59.9% of all loans guaranteed by the State.

During 2009, a total of LTL 325.5 million of State guaranteed loans were repaid. Of that sum, LTL 315.3 million were repaid to creditors by the economic entities themselves. The Ministry of Finance repaid creditors LTL 10.2 million on behalf of debtors, in keeping with its guarantee obligations.

Besides the indirect State liabilities to creditors which are included in the Report on Granted State Guarantees and which have been undertaken in accord with the Republic of Lithuania's Law on Government Debt, the State has also given guarantees to international financial institutions as per international treaties ratified by the Seimas of the Republic of Lithuania, and specifically, to the European Investment Bank and the Nordic Investment Bank for loans granted by those institutions from their own resources and for the financing of various investment projects.

Implementing the Agreement signed in Luxembourg on 25 June 2005 (which in part revised the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States on the one part, and the European Community and its Member States, on the other, and was signed in Cotonou on 23 June 2000), which the Seimas of the Republic of Lithuania ratified on 3 October 2006 with Law Nr. X-830, and as per the 28 November 2008 decree Nr. 1201 of the Government of the Republic of Lithuania, during 2009 an International Guarantee Agreement was signed according to which Lithuania, as a European Union member, committed itself to grant a guarantee to the European Investment Bank for loans granted by that institution from its own resources to members of the African, Caribbean and Pacific Group of States and overseas territories. Lithuania's commitments under this guarantee granted to the European Investment Bank, which are proportional to its contribution to the capital of the bank, at 31 December 2009 constituted LTL 0.1 million from the paid out amount of the loans.

Implementing the Agreement signed in Helsinki on 11 February 2004 between the Kingdom of Denmark, the Republic of Estonia, the Republic of Iceland, the Republic of Latvia, the Republic of Lithuania, the Kingdom of Norway, the Republic of Finland and the Kingdom of Sweden, which the Seimas of the Republic of Lithuania ratified on 28 September 2004 by Law Nr. IX-2459, and as per the 24 December 2004 decree Nr. 1630 of the Government of the Republic of Lithuania, the following agreements have been signed: a Guarantee Agreement between the Government of the Republic of Lithuania and the Nordic Investment Bank regarding investment project loans and investment project guarantees, and a Guarantee Agreement between the Government of the Republic of Lithuania and the Nordic Investment Bank regarding environmental protection investment project loans and environmental protection investment project guarantees. Lithuania's financial responsibility under the guarantee for the investment projects reached the established maximum financial responsibility sum and at 31 December 2009 was LTL 101.8 million. Commitments under the guarantee for environmental protection projects were LTL 5.9 million at 31 December 2009.

The total debt guaranteed by the Lithuanian State, including also commitments for guarantees granted to international financial institutions, was LTL 1376.8 million at the end of 2009.

During 2009, LTL 7.1 million of loans were granted, out of moneys borrowed by the European Investment Bank in the name of the State, for the implementation of various central government and municipal infrastructure investment projects that are being financed jointly with European Union funds. Loans totalling LTL 2920 million were also granted during the year to the State Social Insurance Fund Board to balance cash flows.

The outstanding amount of loans granted to economic agents from moneys borrowed in the name of the State totalled LTL 3986.6 million at the end of 2009, which was LTL 2785 million more than at the start of the year.

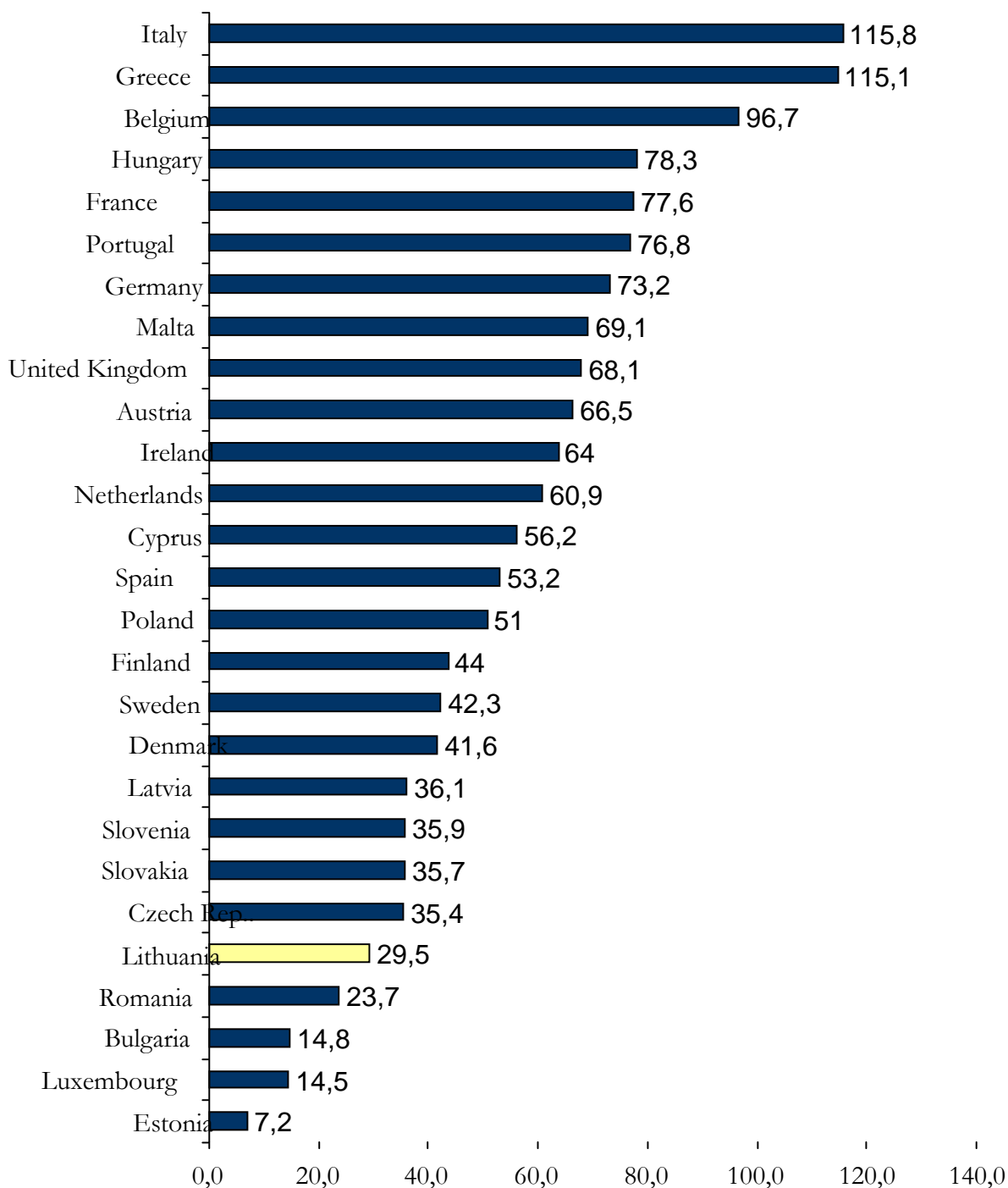
IV. DEBT LEVEL, STRUCTURE AND DYNAMICS

[Back to Contents](#)

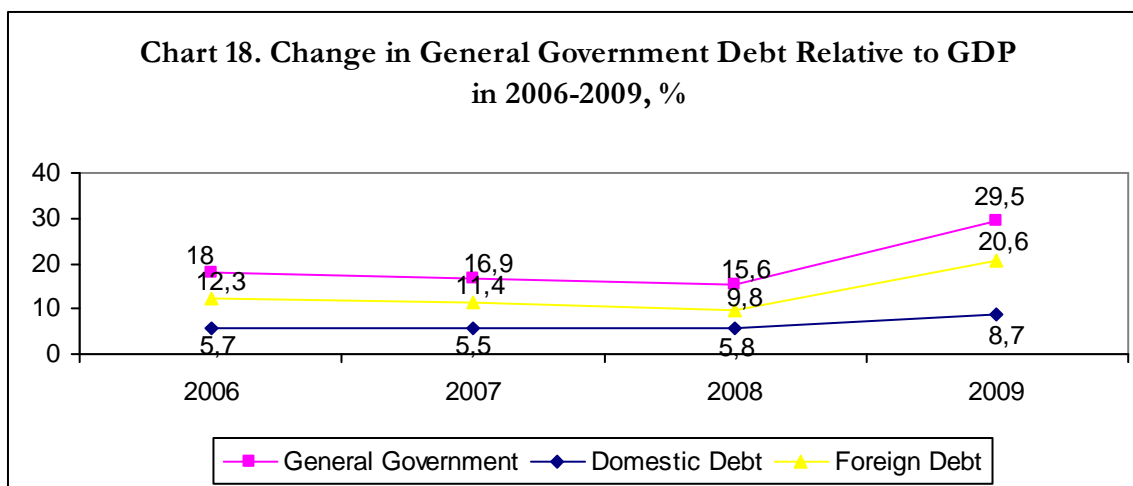
General Government Debt

The general government debt at the end of 2009 totalled LTL 27104.9 million or 29.5% of gross domestic product (GDP). The ratio of general government debt to GDP increased 13.9 percentage points during 2009 (in 2008 it was 15.6% of GDP), but still remained well below the 60% of GDP limit established in the Maastricht Treaty.

**Chart 17. Ratios of General Government Debt to GDP
in EU Member States at End of 2009**

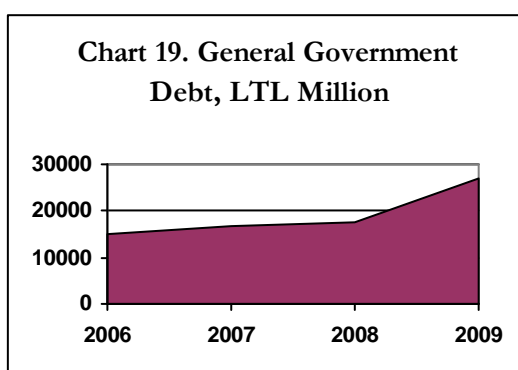


Source: Eurostat

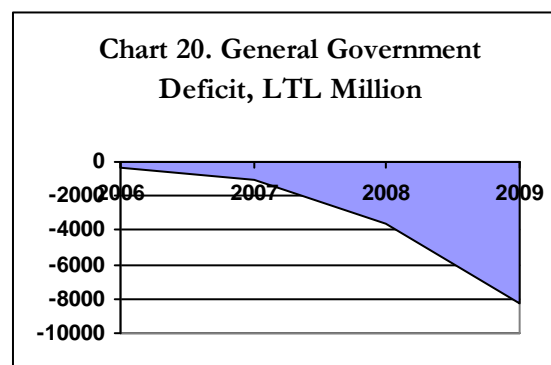


Source: Ministry of Finance

The nominal value of the general government debt increased during 2009 by LTL 9730.1 million or 56% (at the start of the year, a LTL 2 billion increase had been projected). The change was greater than expected because the government budget deficit widened as revenues decreased due to the sharp contraction of the economy. Moreover, as wages fell and unemployment rose, the situation of the State Social Insurance Fund (Sodra) deteriorated. Just to balance Sodra's cash flows, the Government of the Republic of Lithuania borrowed LTL 2.9 billion during 2009. In total, LTL 13.8 billion were borrowed during 2009 (compared with the planned amount of LTL 5.4 billion).



Source: Ministry of Finance



Source: Ministry of Finance

The structure of the general government debt at the end of 2009 was as follows: central government debt of LTL 25660.9 million; local government debt of LTL 1448.5 million (of which LTL 46 million were loans on-lent by the government, and LTL 48.4 million were short-term loans from the State budget); and social insurance fund debt of LTL 3010 million, of which LTL 2920 million were on-lent by the Ministry of Finance. Consolidated liabilities among sub-sectors were LTL 3014.4 million.

Table 3. General Government Debt by Sub-Sector

Indicator	31 December 2008		31 December 2009		Change	
	LTL mln	%	LTL mln	%	LTL mln	%-points
General Govt. Debt	17374.8	100	27104.9	100	9730.1	-
Central Gov.. Debt	16052.4	92.4	25660.9	94.7	9608.5	2.3
Social Ins. Fund Debt*	85.9	0.5	90.0	0.3	4.1	-0.2
Local Gov. Debt*	1236.5	7.1	1354.0	5.0	117.5	-2.1

*Data for Social Insurance Fund Debt and Local Government Debt are presented in consolidated form, i.e., excluding loans granted by the government. Source: Ministry of Finance

The domestic portion of the general government debt increased by LTL 1847.9 million during 2009 and at year end was LTL 8061.4 million, or 29.7% of the total general government debt. The foreign portion of the general government debt increased by LTL 7882.2 million during 2009 and at year end was LTL 19043.5 million, or 70.3% of the total general government debt.

Long-term liabilities increased by LTL 9904.2 million during 2009 (to LTL 25906.0 million) and totalled 95.6% of the total general government debt. Short-term liabilities shrank by LTL 174.0 million (to LTL 1198.9 million) and accounted for 4.4% of the general government debt.

Total outstanding loans grew by LTL 2111.7 million and at 31 December 2009 totalled LTL 4277.7 million (15.8% of total debt), while the nominal value of securities issued increased during the year by LTL 7612 million and at 31 December 2009 was LTL 22820.8 million (84.2% of total debt).

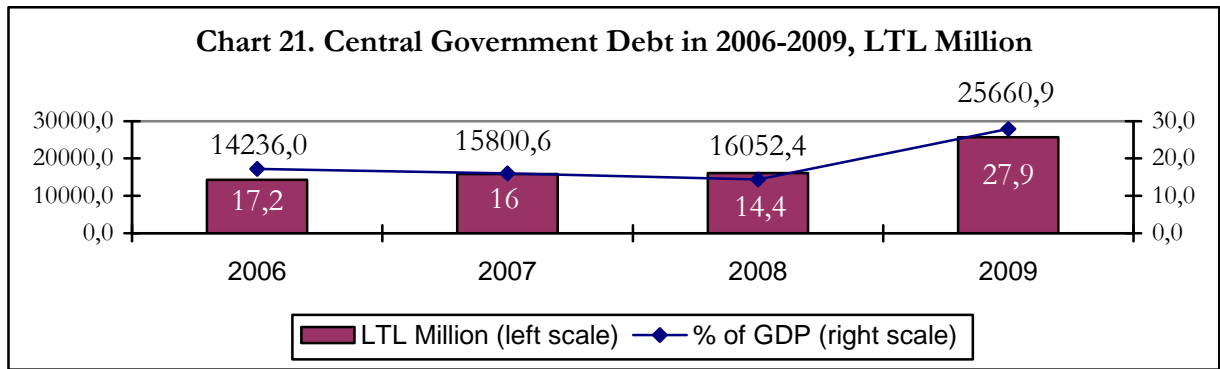
Table 4. General Government Debt by Type of Instrument

Indicator	31 December 2008		31 December 2009	
	LTL mln	%	LTL mln	%
General government debt	17374.8	100	27104.9	100
Domestic debt	6213.5	35.8	8061.4	29.7
Long-term liabilities	4840.6	27.9	6862.5	25.3
deposits	–	–	–	–
securities	3677.6	21.2	5561.3	20.5
loans	1163.0	6.7	1301.2	4.8
Short-term liabilities	1372.9	7.9	1198.9	4.4
deposits	–	–	6.4	0.02
securities	1029.8	5.9	1141.7	4.2
loans	343.1	2.0	50.7	0.2
Foreign Debt	11161.3	64.2	19043.5	70.3
Long-term liabilities	11161.3	64.2	19043.5	70.3
deposits	–	–	–	–
securities	10501.4	60.4	16117.8	59.5
loans	659.8	3.8	2925.7	10.8
Short-term liabilities	–	–	–	–
securities	–	–	–	–
loans	–	–	–	–

Source: Ministry of Finance

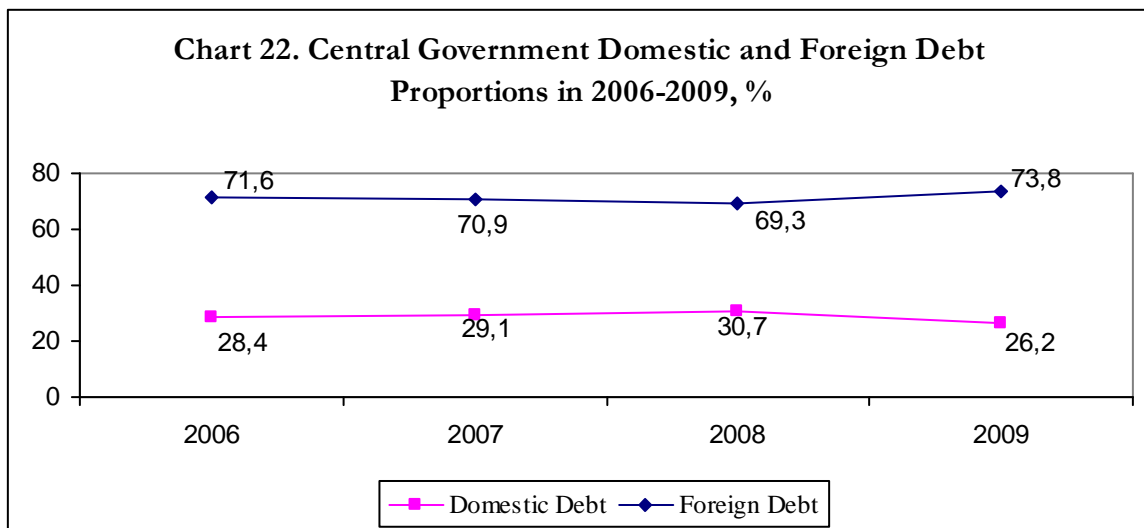
Central Government Debt

The largest part of the general Government debt (94.7%) consisted of liabilities to domestic and foreign creditors that were undertaken by the central government sector but not yet fulfilled. During the year the central government debt increased by LTL 9608.5 million, or 59.9%, and at the end of 2009 totalled LTL 25660.9 million. The ratio of central government debt to GDP also increased and at 31 December 2009 was 27.9% (compared with 14.4% a year earlier).

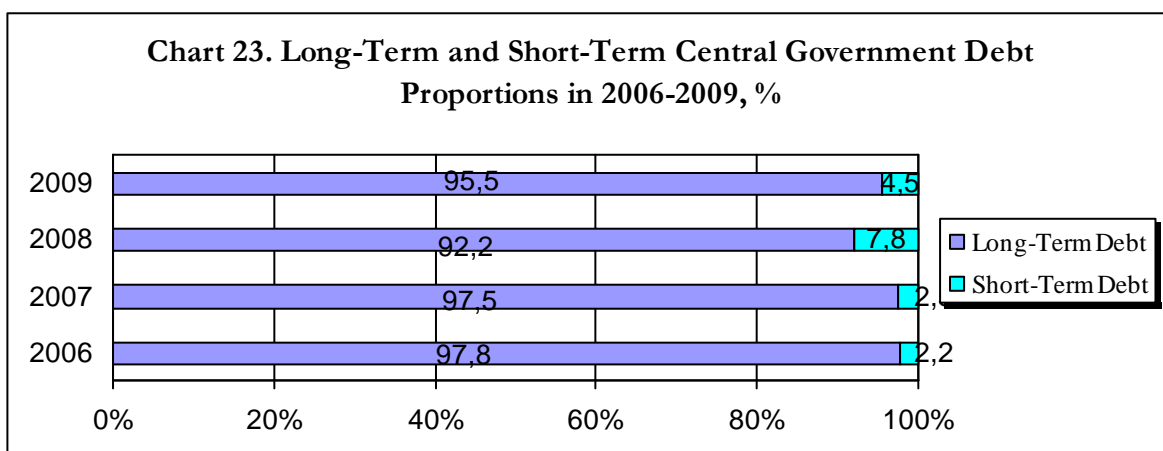


Source: Ministry of Finance

The domestic portion of the central government debt stood at LTL 6716.9 million at year end, having increased by LTL 1790.4 million during the year. The foreign portion of the central government debt increased by LTL 7818.1 million during 2009 and at 31 December totalled LTL 18944 million. As can be seen in chart 16, the foreign part of the debt increased during the year and at the end of 2009 was 73.8%



Source: Ministry of Finance

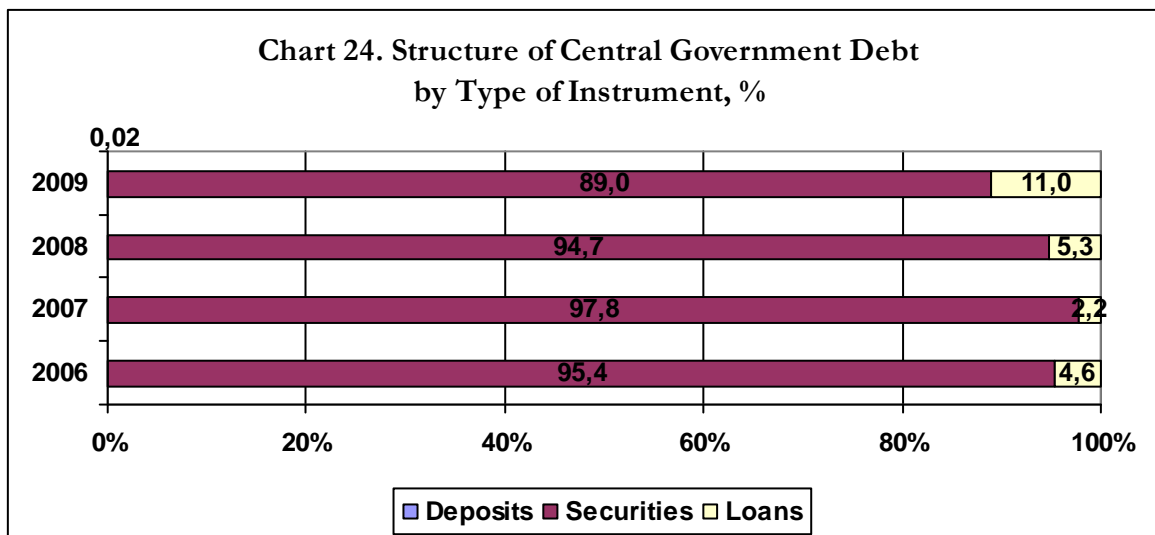


Source: Ministry of Finance

During 2009, long-term central government debt increased by LTL 9698.8 million and at year end totalled LTL 24506.2 million, while short-term debt decreased by LTL 90.3 million and at 31 December was LTL 1154.7 million.

As can be seen in chart 23, the long-term portion of the debt increased during 2009 to 95.5%, from 92.2% in 2008. The short-term portion shrank from 7.8 to 4.5%.

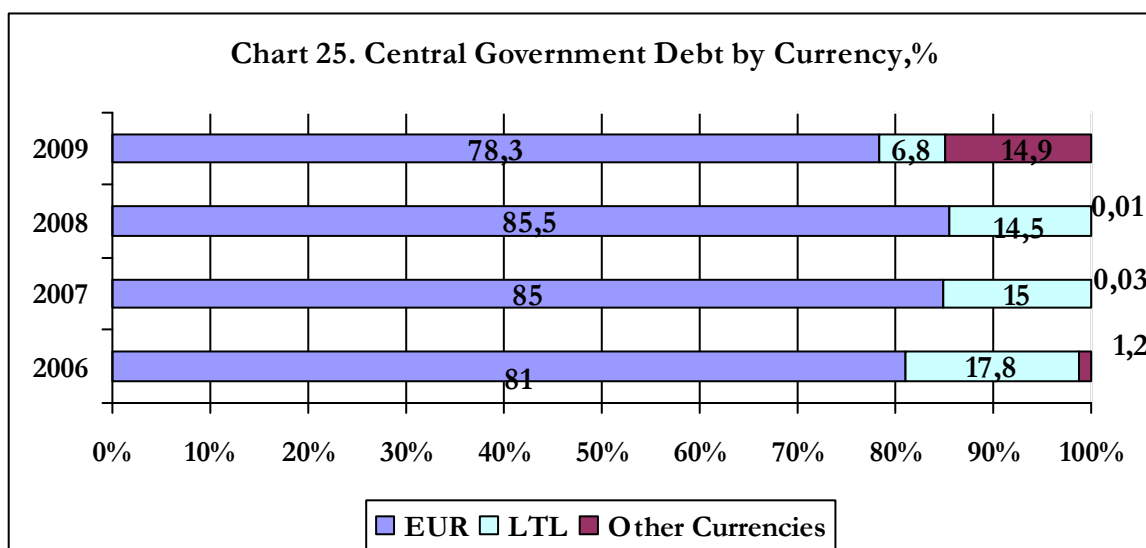
Central government liabilities in the loan category increased during 2009 and at year end wer LTL 2833.6 million (11%). Securities increased by LTL 7612 million and totalled 89% of the central government debt (chart 23) or LTL 22820.8 million. Savings notes made up 0.02% (LTL 6.4 million) of the total debt.



Source: Ministry of Finance

Of liabilities assumed on behalf of the State as of the end of 2009, 95.7% were at fixed interest rates.

Regarding the currency composition of the central government debt, 78.3% was in euros (versus 85.5% at the end of 2008), about 14.2% was in U.S. dollars, 6,8% was in litas (versus 14.5% in 2008), and 0.7% was in other currencies (see chart 24). However, taking into account the financial derivatives used to hedge against exchange-rate risk, 100% of the central government's debt obligations at the end of 2009 were denominated in litas and euros.



Central Government Domestic Debt

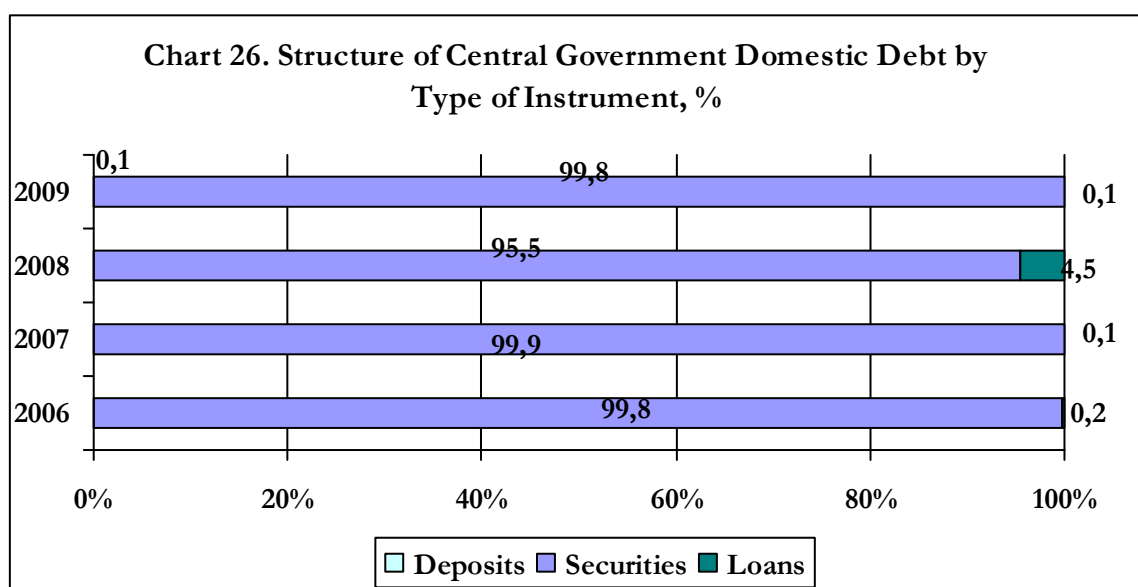
The domestic portion of the central government debt increased during the year by LTL 1790.4 million to LTL 6716.9 million or 26.2% of the total central government debt. At the end of 2009, long-term domestic debt liabilities were LTL 5562.3 million, while short-term liabilities were LTL 1154.7 million (see table 5).

Table 5. Central Government Domestic Debt by Type of Instrument

Indicator	31 December 2008		31 December 2009	
	LTL mln	%	LTL mln	%
Domestic Debt	4926.6	100	6716.9	100
<i>Long-term</i>	3681.6	74.7	6716.9	100
Deposits (savings notes)	–	–	5562.3	82.8
Government securities	3677.6	74.6	5561.3	82.8
Loans	4.0	0.1	1.0	0.0
<i>Short-term</i>	1245.0	25.3	1154.7	17.2
Government securities	1029.8	20.9	1141.7	17.0
Loans	215.2	4.4	6.5	0.1
Deposits (savings notes)	–	–	6.4	0.1

Source: Ministry of Finance

During 2009 the Government borrowed on the domestic market by issuing short-term and long-term government securities. In the course of the year, the Government raised a nominal LTL 2195 million in sales of Treasury bills, a nominal LTL 25 million in sales of bonds and a nominal LTL 6.4 million from sales of savings notes. During the same period, it redeemed a nominal LTL 2699.4 million of Treasury bills and a nominal LTL 260 million of bonds. The Government also borrowed LTL 138.1 million in short-term domestic loans, and repaid LTL 345.3 million of such loans. Moreover, private placements of securities on the domestic market raised LTL 2786 million, with a nominal LTL 448.9 million of such securities being redeemed during the year.



Source: Ministry of Finance

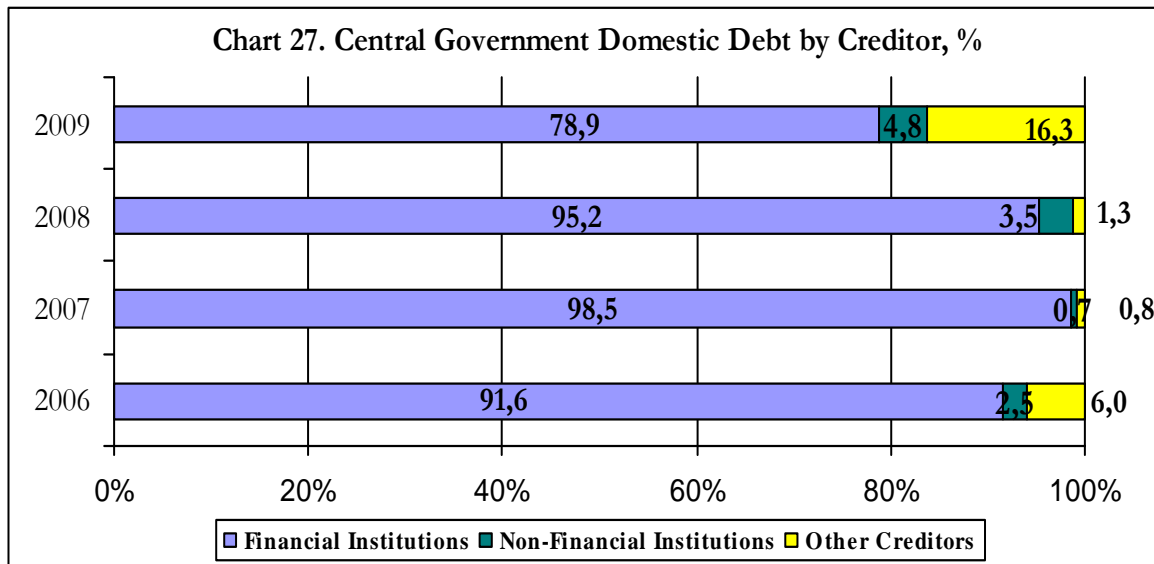
The weighted average nominal maturity of government securities issued in domestic auctions lengthened between the end of 2008 and the end of 2009 from 1648 to 1945 days, while the weighted average residual time to maturity shortened from 797 to 773 days. The total nominal value of outstanding auctioned long-term (by residual maturity) government securities was 2.34 times larger than the value of the corresponding short-term securities. Compared with the end of 2008, the share of Treasury bills in the total of auctioned domestic government securities shrank from 50.6% to 29.9%.

Borrowing costs increased during 2009 for Lithuania as for the other European Union member states. The weighted average annual yield on all maturities of Lithuanian government securities auctioned during 2009 increased to 7.83%, from 6.23% in 2008. The weighted average annual yield on Treasury bills increased to 7.83%, from 6.28% in 2008, while that of bonds increased from 5.32% to 7.63%.

Interest accumulated on Government debt obligations since the last payment, as of 31 December 2009, totalled LTL 853.3 million. Of that amount, LTL 802.1 million was for government securities (LTL 195.9 million for domestic securities and LTL 606.2 million for government securities issued in foreign markets) and LTL 51.2 million was for foreign loans.

The central government sector owed domestic creditors the following: LTL 5296.6 million to the financial sector, LTL 322.2 million to the non-financial sector, and LTL 1098.1 million to others.

The central government debt was reduced by a nominal LTL 365 million of government securities acquired by central government units, including a nominal LTL 25 million of government securities held by the Ministry of Finance at year end, LTL 183.4 million by the Ignalina nuclear power plant decommissioning fund, LTL 1.5 million by the Licensed Warehouse Compensation Fund, LTL 84 million held by the Guarantee Fund, LTL 46.6 million by the state company Turto Bankas, LTL 12.5 million by the Agricultural Loan Guarantee Fund, LTL 7.7 million by the Crop Insurance Fund, and LTL 4.2 million by the Lithuanian Environmental Protection Investment Fund. Of the securities held by the central government, 41.3% were long-term and 58.7% short-term.



Source: Ministry of Finance

Central Government Foreign Debt

Central government foreign debt increased LTL 7818,2 million during 2009 and at 31 December was LTL 18944.0 million, or 73.8% of the total central government debt.

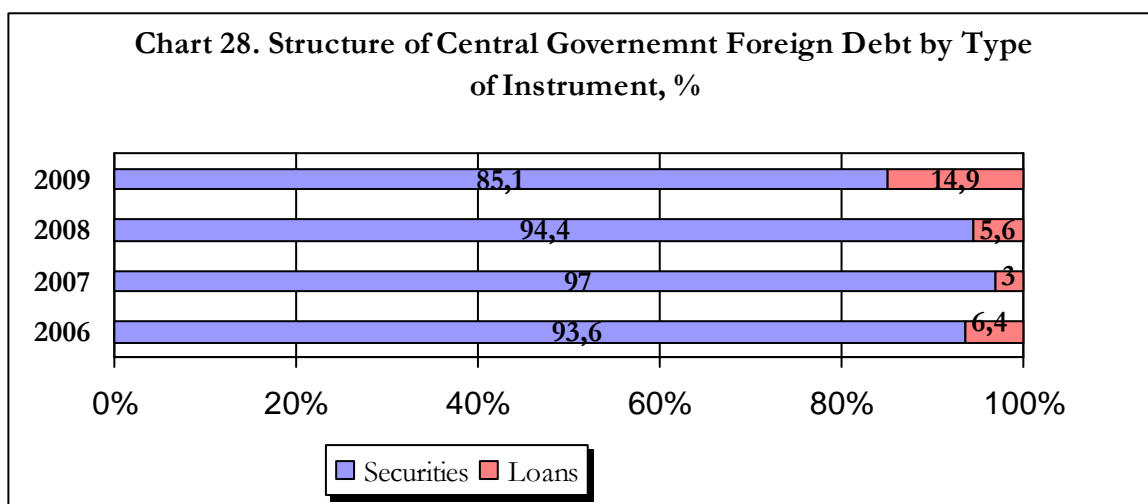
Table 6. Central Government Foreign Debt by Type of Instrument

Indicator	31 December 2008		31 December 2009	
	LTL mln	%	LTL mln	%
Foreign Debt	11125,8	100	18944,0	100
Long-term	11125,8	100	18944,0	100
Government securities	10501,4	94,4	16117,8	85,1
Loans	624,4	5,6	2826,2	14,9
Short-term	–	–	–	–
Government securities	–	–	–	–
Loans	–	–	–	–

Source: Ministry of Finance

During 2009 the central government issued a nominal EUR 762 million and USD 1500 million of bonds in foreign markets (for a total of LTL 6112.5 million) and redeemed a nominal LTL 181.3 million of bonds. Changes in the U.S. dollar exchange rate caused the debt to increase (in terms of the long-term nominal value of the bonds) by LTL 126.3 million (setting aside the impact of financial hedging instruments).

The Government took loans abroad for LTL 2548.2 million and repaid LTL 346.3 million of loans to foreign creditors.

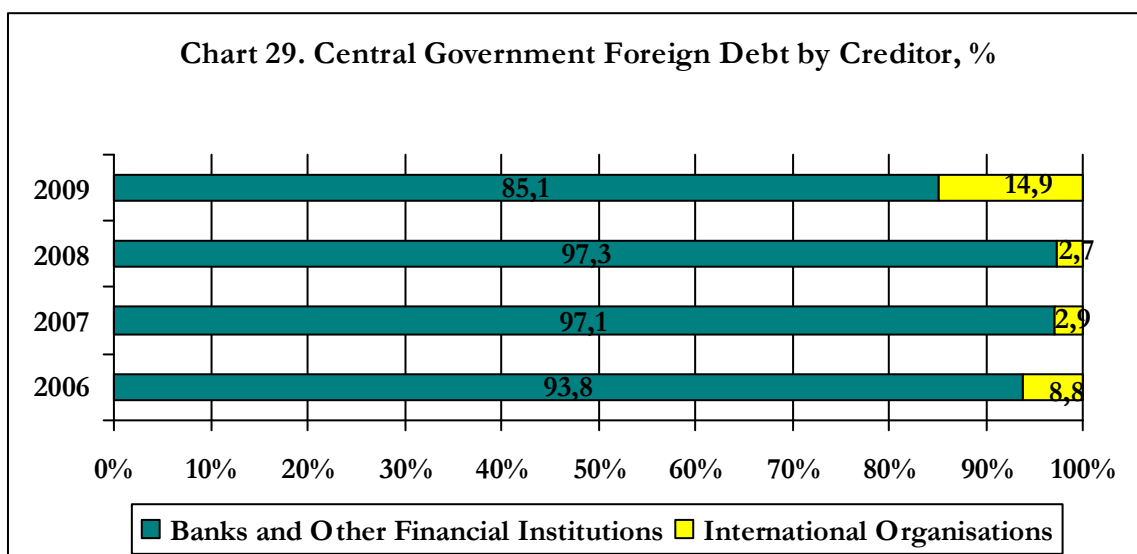


Source: Ministry of Finance

The share of long-term securities in the foreign debt shrank from 94.4% in 2008 to 85.1% at the end of 2009, while the share of loans increased from 5.6% to 14.9% (see chart 27).

At 31 December 2009 all foreign debt liabilities were long-term.

The central government sector owed foreign commercial banks and financial institutions LTL 16117.8 million (85.1% of the foreign debt) and international organizations LTL 2826.2 million (14.9% of the foreign debt).



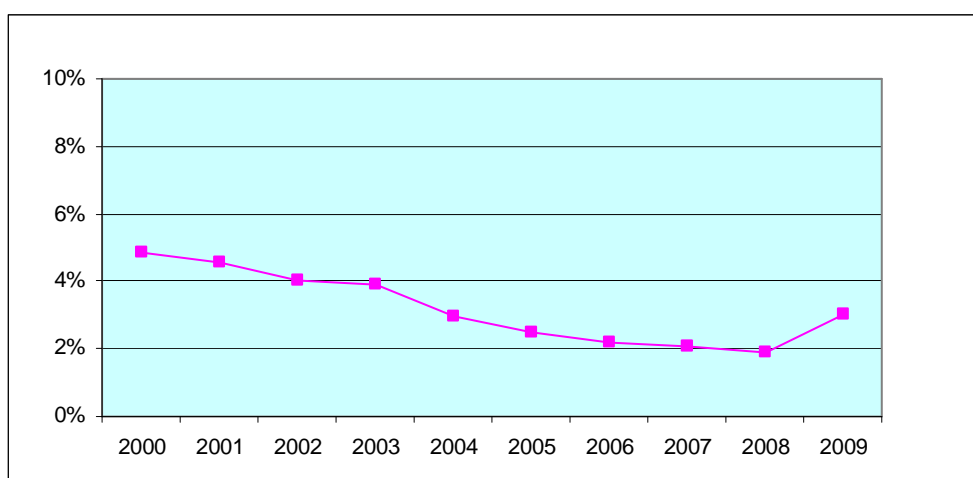
Source: Ministry of Finance

Debt Servicing Costs

General government debt servicing costs include the interest paid on the debt of the central government, municipalities and the social insurance fund as well as other expenses related to borrowing. The size of expenditures for servicing the debt of the central government and the social insurance fund are set by the Seimas when it adopts relevant laws, while expenditures to service the debt of municipalities are authorized by the local governments.

An important indicator for assessing the size of government debt servicing costs is the ratio of interest paid on the general government debt to general government revenues (see chart 29). The ratio steadily decreased between 2000 when it was 4.87%, and 2008 when it was 1.89%². In 2009, when economic decline caused government revenues to fall and interest payments to increase, the ratio rose to 3% but remained at a relatively tolerable level.

Chart 30. Ratio of Interest Paid on General Government Debt to General Government Revenue



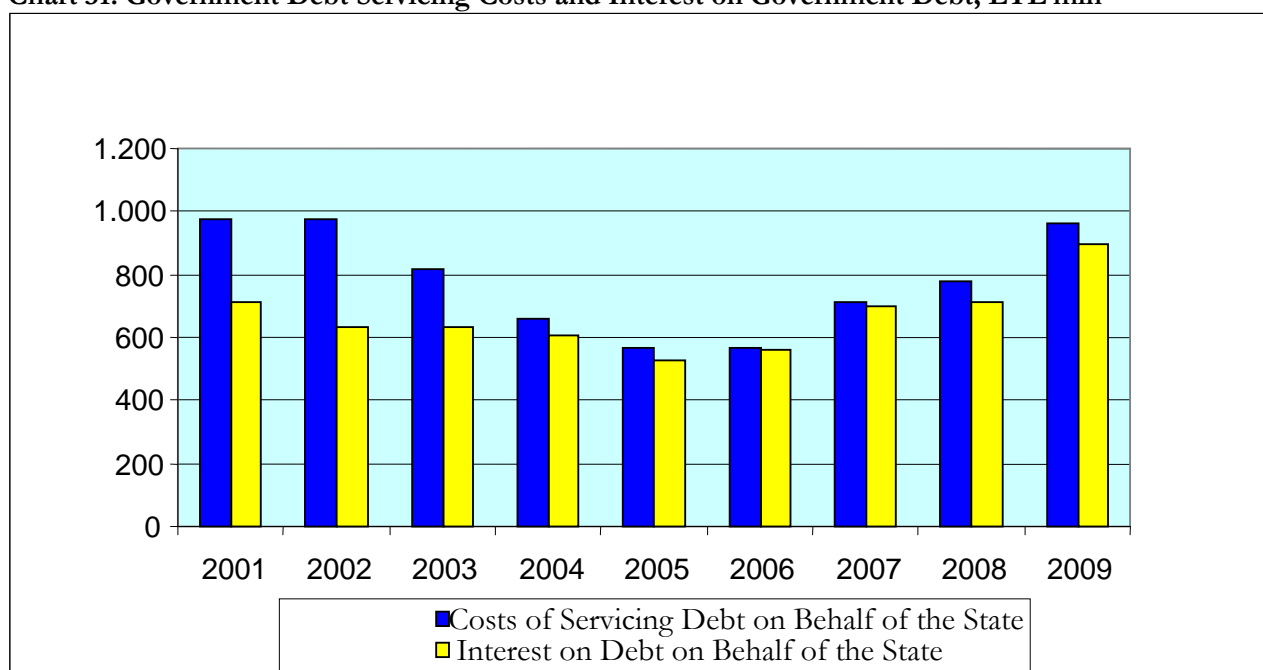
Source: Ministry of Finance

² In this case interest and general government revenues are recorded on the accrual basis under the ESS'95 methodology. Other items in this chapter are recorded on a cash basis.

The largest part of the central government debt servicing costs consist of interest, while the remaining part is expenses related to borrowing on behalf of the State (see chart 30). These expenditures are approved in the State budget under a separate programme, in which they are detailed as: interest on government debt paid to resident and non-resident creditors, commission fees and other expenses related to borrowing. Until the year 2004 debt servicing costs included also amounts payable to creditors for defaulting debtors who have been granted loans on behalf of the State or State-guaranteed loans. As of the year 2004 the aforementioned amounts are included into debt payments.

The costs of servicing State debt in 2009 totalled LTL 961 million, including LTL 896 million of interest payments for loans and government securities. By comparison, in 2008 the total costs were LTL 781 million, of which LTL 711 million were for interest payments. It is noteworthy that in 2009 the government debt servicing costs excluding interest payments decreased by about 7% (LTL 5 million) compared to 2008. Meanwhile, interest payments alone increased in 2009 by around 15% compared to the previous year. This change was due to the increased borrowing needs in 2009 as well as Lithuania's increased credit risk premium and financial market conditions at the end of 2008 and in early 2009.

Chart 31. Government Debt Servicing Costs and Interest on Government Debt, LTL mln³



Source: Ministry of Finance.

³ Debt servicing costs and interest data for 2006 are reported without accounting for premiums received and interest accrued (LTL 244 million).

V. DEBT LIMITS AND RISK MANAGEMENT

[Back to Contents](#)

Managing the risk of the debt liabilities undertaken by the Government on behalf of the State and the monetary resources of the State, involve the management of exchange-rate, interest-rate, credit, liquidity (refinancing) and operations risks. Risk management is important for achieving the primary goal of debt management, namely, financing the Government's borrowing needs at the lowest possible cost and an acceptable level of risk.

Limits

The Government's net borrowing limit is set by the Seimas when it approves the Law on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for each year. Limits (on the structure of the debt portfolio) for the debt liabilities that the Government undertakes on behalf of the State are fixed in the Lithuanian Government Medium-Term Borrowing and Debt Management Strategy. During 2009, all the statutory limits were respected.

Table 7. Compliance with Government Borrowing Limits at 31 December 2009

Description	31 December 2009		31 December 2008	
	Limit	Factual size	Limit	Factual size
Government Net Borrowing, LTL millions	9560.0	9530.0	1630.0	281.0
Short-term debt liabilities assumed on behalf of the State (i.e., with residual maturity of less than 1 year), as a percent of total State debt liabilities	25.0	13.4	20.0	11.1
Floating interest rate debt liabilities assumed on behalf of the State, as a percent of total State debt liabilities.	15.0	4.3	10.0	3.6
Expenditure on interest on loans taken on behalf of the State, Government securities issued and other debt liabilities assumed on behalf of the State, as a percent of the annual amount of taxes collected into the State budget.	-	6.8	10.0	4.0
Weighted average residual maturity of debt assumed on behalf of the State, years	>4	5.1	>4	5.2
<i>Macaulay</i> duration, years	2.5-5	3.4	3-5.5	4.3
Debt guaranteed by the central Government, as a percent of GDP	7.0	1.4	-	1.2
Liabilities assumed by guarantee institutions which are granted a State guarantee (including the amount re-guaranteed by the EIF ⁴), LTL million. Of which:	1138.0	701.2	718.0	581.6
– liabilities of the Agricultural Loan Guarantee Fund, millions of litas	488.0	428.9	408.0	349.7
– liabilities of INVEGA (including the amount re-guaranteed by the EIF), LTL millions	650.0	272.3	310.0	231.9
– Total INVEGA obligations, LTL millions	-	331.0	-	308.5

Source: Ministry of Finance

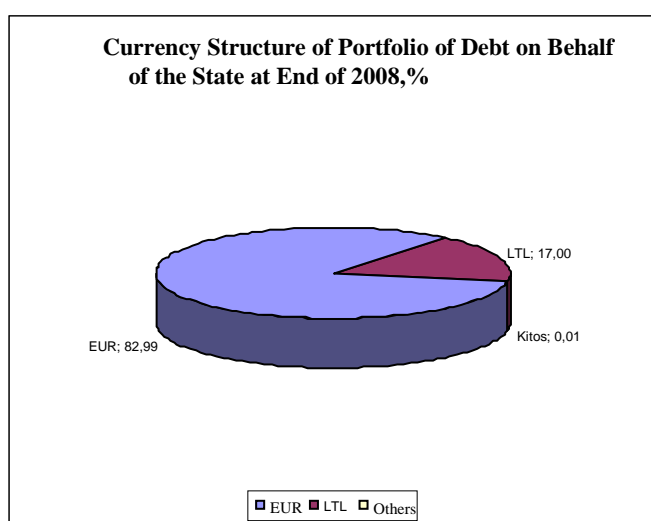
⁴ European Investment Fund

Exchange Rate Risk

Government debt in currencies whose exchange rates are not fixed relative to the litas and the euro is influenced by exchange rate fluctuations, which may cause undesirable debt management expenses and changes in debt payment amounts. The main indicators for measuring exchange rate risk are the percentage of the debt portfolio in currencies whose exchange rate is not fixed relative to the litas and the euro, and the expected exchange rate fluctuation during the relative future period. Because derivative financial hedging instruments were used, 100% of the Government's debt liabilities at the end of 2009 were denominated in litas or euros (see chart 32). During 2009, the portion of government debt in currencies other than the euro and the litas decreased from LTL 3.7 million to LTL 0.6 million and made up less than 0.01% of the total government debt.

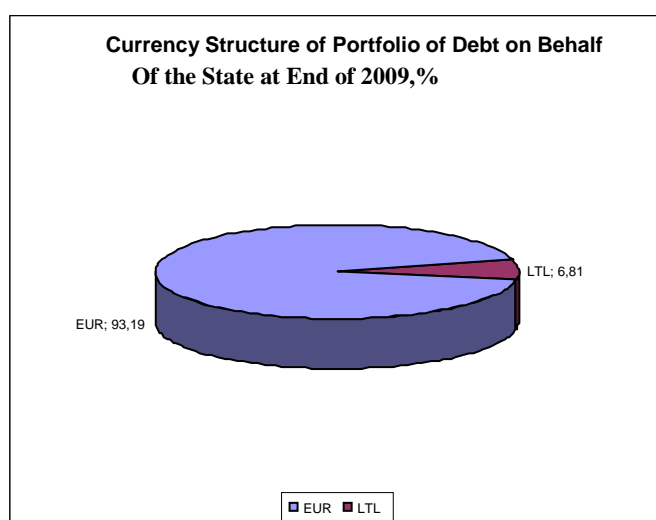
When in October 2009, USD 1.5 billion of dollar-denominated government bonds were issued in international capital markets, derivative financial hedging instruments were used (specifically, cross currency swap agreements) to fully insure the entire amount of the U.S. dollar debt against the risk of exchange rate changes. The cross currency swap agreements were made with four highly creditworthy commercial banks operating in foreign (European Union) countries and in the Lithuanian market. The weighted average interest rate, which the Government pays in euros (receiving from the commercial banks the bond interest amounts in U.S. dollars which must be paid to investors), is 6.76%. In comparison, issue yield to maturity was 6.81% (the fixed coupon rate is 6.75%). By hedging the U.S. dollar-denominated debt liabilities against the risk of exchange rate changes through the use of such derivative financial instruments, the Government reduced its borrowing costs.

Chart 32



Source: Ministry of Finance

Chart 33



Source: Ministry of Finance

Interest Rate and Refinancing Risks

Interest rate risk is the risk that fluctuations of interest rates in the market represent for a debt portfolio. Interest rate fluctuations cause fluctuations in the costs of managing that part of a portfolio consisted of variable interest rate debt. Since floating (short-term) interest rates are lower than fixed (long-term) interest rates, the assumption of more floating rate debt liabilities reduces debt management costs but also increases their risk of fluctuation. The key indicator for assessing interest rate risk is the portion of the portfolio for which the interest rate will be fixed anew within one year. That includes all debt liabilities with variable interest rates as well as those whose residual time to maturity is less than or equal to one year. At the end of 2009, this indicator was equal to 16.88% of funds borrowed on behalf of the Government (which includes a 4.27% portion of the debt which had floating interest rates and the 13.35% portion of short-term debt in terms of residual time to maturity⁵). The same indicator also reveals the refinancing risk. The weighted average residual time to maturity at the end of 2009 was 5.1 years.

Another indicator of the sensitivity to interest fluctuations of a debt portfolio composed of Government securities issued is the so-called “Macaulay duration”. This statistic shows the weighted average time period for which the portfolio interest rate is fixed. Assuming that short-term interest rates are smaller than long-term interest rates, a shorter duration usually means lower costs. On the other hand, a short duration means greater risk of a change in the interest rate since within a short time the interest rate for a large part of the portfolio will be fixed anew, and that causes risk. The Macaulay duration thus shows a combination of a debt portfolios risk and costs. At the end of 2009, the Macaulay duration for the portfolio of Lithuanian government securities issued⁶ was 3.4 years.

In order to manage refinancing and interest rate risks, the Government Medium-Term Borrowing and Debt Management Strategy specifies a short-term debt limit equal to 25% of the entire debt portfolio, and a 15% limit on debt with floating interest rates.

According to the loan and interest payment schedule for the Government’s debt portfolio (see charts 33 and 34), the largest debt repayments are 2012 and 2013 (EUR 1 billion of Eurobond redemptions). Before 2012 there are no significant repayments of foreign debt, while repayments of domestic debt are rationally distributed over time and do not involve risk. Seeking to reduce the refinancing risk in 2012 and 2013, the Government’s medium-term borrowing and debt management strategy includes a provision to accumulate liquid financial resources in advance in the Reserve (Stabilization) Fund for the future repayment of large debts. Toward this objective, corresponding draft legal amendments will be prepared.

⁵ Part of the debt portfolio (0.74%) has a floating interest rate and is also due to mature within a year. This part of the interest rate risk is counted only once.

⁶ The debt for Government securities issued in 2009 made up 88.9% of all the debt liabilities assumed on behalf of the Government.

Chart 34

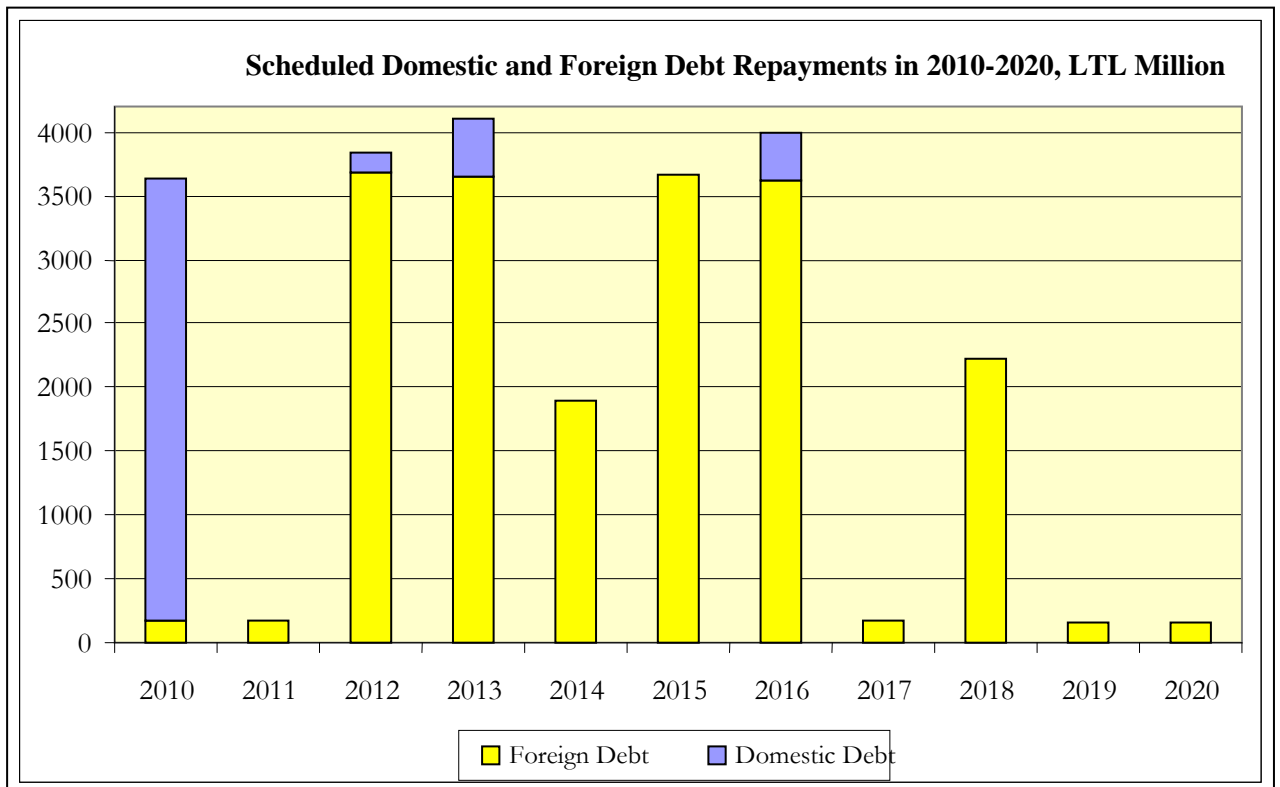
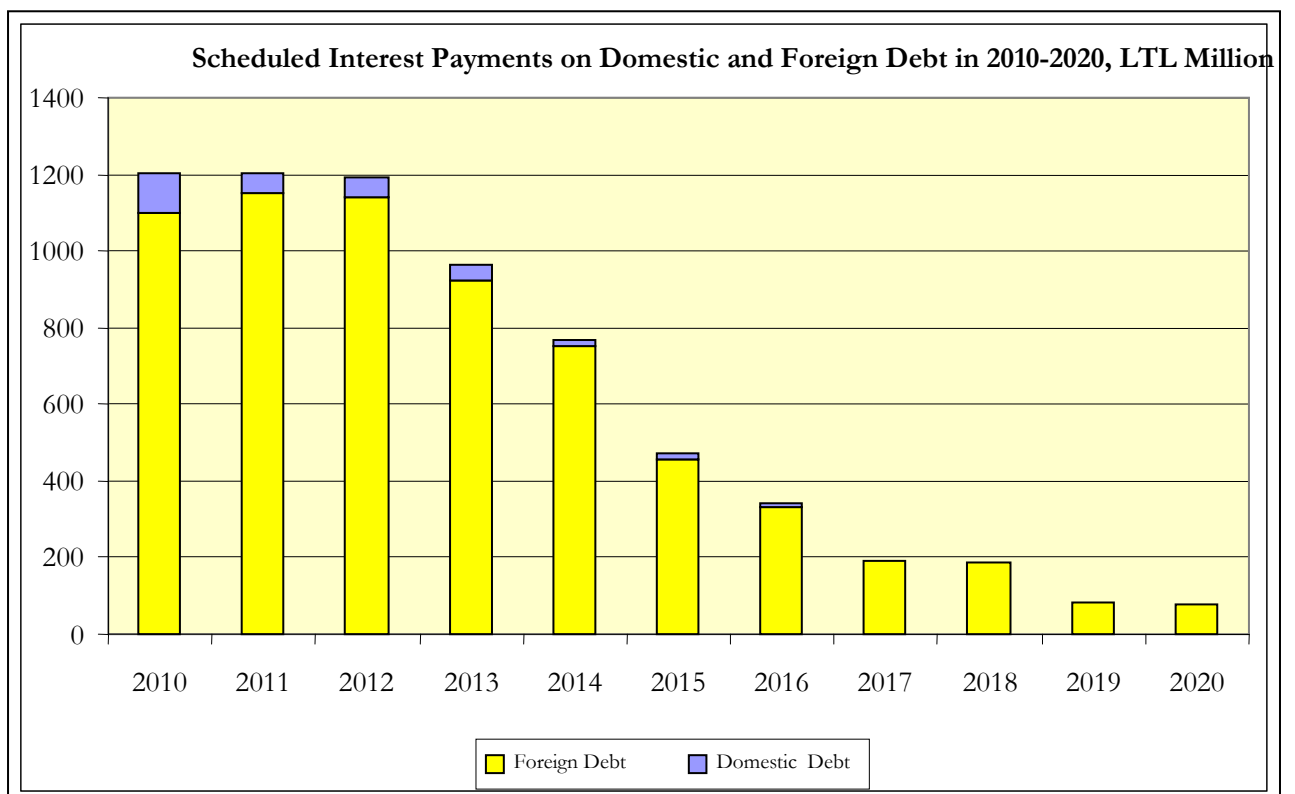


Chart 35



Source: Ministry of Finance

Market Risk Management Models

In order to manage market risk, the Ministry of Finance until 2008 used a deterministic debt portfolio simulation model, which allowed assessment of the debt portfolio's parameters under several different scenarios for exchange rates, interest rates and borrowing needs. The debt portfolio is constructed by fixing the instruments, currencies, interest rates and maturities for borrowing in the desired period. The sensitivity of the portfolio to external factors is measured under the most likely scenario for changes in exchange rates, interest rates, risk premiums and borrowing needs, as well as under pessimistic and optimistic scenarios.

In 2008, the ministry installed a stochastic simulation model based on a Cost-at-Risk methodology. This model permits assessment not only of average government debt servicing costs, but also of the related risks. It indicates the largest possible deviation from the average costs for servicing debt on behalf of the Government with a certain probability.

GLOSSARY

[Back to Contents](#)

Central government sector – government budgetary institutions, extra-budgetary funds, state enterprises that are non-market producers, and public institutions that are non-market producers and are controlled or mainly financed by the central government.

Deterministic simulation model – a model for comparing several borrowing strategies and evaluating debt portfolio parameters under several different scenarios for exchange rates, interest rates and borrowing needs.

Issuer – a legal person that is issuing or has issued its own securities.

Macaulay duration – the weighted average of cash flow periods for all the government debt liabilities assumed on behalf of the state when government securities are issued; also indicates the average time period during which payments for a debt portfolio do not depend on changes in the level of interest rates.

Financial sector – enterprises and companies that primarily undertake financial intermediation and/or auxiliary financial activities (the central bank, commercial banks, credit unions, other financial intermediaries, financial auxiliary companies, insurance companies, pension funds).

Derivative financial instrument – a financial instrument (futures agreement, forward agreement or other), whose value or price is linked to the value or price of the commodity on which the instrument is based; also a financial instrument (futures agreement, forward agreement or other), whose value or price is linked to the price of securities, an exchange rate, an interest rate, an exchange index, an assessment of creditworthiness or other value.

Liquidity – a characteristic of investments that gives the investor the possibility, with minimal risk of losing value, to sell his or her investments whenever desired at or near the market price.

Non-finance sector – companies or corporations whose primary activity is the production of merchandise or the provision of non-financial services for a market, seeking to earn profit (state non-finance corporations, national private, foreign-controlled non-finance corporations).

Resident – a legal or physical person who has economic interests in Lithuania, undertakes economic activity which is not forbidden by law and permanently or temporarily, but not for more than one year, works or resides in Lithuania.

Market producer – a producer who sells most production at economically significant prices.

Non-market producer – a producer who provides most production at no cost or for economically insignificant prices. Prices are considered economically significant when income from the sale of the goods or services is 50% or more of their production cost.

Debt portfolio – Money borrowed by the Lithuanian Ministry of Finance, acting in representation of the Government and according to the order established by the Government,

received from the sale of government securities, the signing of loan agreements or other documents which establish debt liabilities.

Social Insurance Fund sector – „Sodra“, the Mandatory Health Insurance Fund budget, and the Employment Fund.

Stochastic simulation model – a model which uses mathematical methods to imitate the average costs of debt management and the probability of their deviation from the average under different borrowing strategies.

Government sector – the central government, local government and social insurance fund sub-sectors.

Government debt – the consolidated total of assumed but not yet fulfilled liabilities of subjects belonging to the government sector and having the right to borrow, to return to creditors money that was borrowed through the sale of government securities, the signing of loan agreements, leasing agreements and other documents creating debt liabilities.

Local government sector – municipal budget organizations, municipal companies that are non-market producers, public institutions that are non-market producers and are controlled or primarily financed by a local government.

LEGAL FRAMEWORK

[Back to Contents](#)

Republic of Lithuania Law on State Debt (Official Gazette 1996, No. 86-2045; 2005, No. 83-3041) regulates borrowing by the Government of the Republic of Lithuania on behalf of the State, granting of State guarantees and relations associated with the claim rights of the State to borrowers, the fulfilment of whose debt liabilities is guaranteed by the State.

Rules for the Issue of and Trading in the Republic of Lithuania Government Securities approved by Government of the Republic of Lithuania Resolution No. 1329 of 3 December 1997 (Official Gazette 1997, No. 112-2838; 2004, No. 22-663), regulate the sale, settlements, accounting, trade and redemption of domestic Lithuanian government securities, as well as the rights and duties of intermediaries in public trading and redemption of securities.

Medium-term Strategy of the Government of the Republic of Lithuania for Borrowing and Debt Management, approved by Government of the Republic of Lithuania Resolution No. 1200 of 30 September 2009 (Official Gazette 2009, No. 118-5077), identifies the main goals of the Government's borrowing policy, specifying tasks and instruments for managing the debt liabilities which the Government has assumed on behalf of the State.

Rules for the Issue of the Republic of Lithuania Government Securities in Foreign Markets, Taking Loans on Behalf of the State and Signature of Other Binding Debt Documents⁵, approved by Government of the Republic of Lithuania Resolution No. 1377 of 20 November 2001 (Official Gazette 2001, No. 98-3491; 2006, No. 29-982) regulate the borrowing by the Government of the Republic of Lithuania on behalf of the State - the issue of Government Securities in foreign markets, the borrowing on behalf of the State in domestic and foreign markets and from international financial organizations, signature of other binding debt documents and documents related to the borrowing by the Government on behalf of the State in domestic and foreign markets (with the exception of the documents related to trading of Government Securities in domestic market).

Rules for Granting Loans from Funds Borrowed on Behalf of the State and Issuing State Guarantees and Repayment of Loans Granted approved by Government of the Republic of Lithuania Resolution No. 667 of 4 June 2001 (Official Gazette 2001, No. 49-1713; 2005, No. 105-3882) regulate supervision procedures for granting loans from funds borrowed on behalf of the State and issuing State guarantees to creditors for their granted loans, granted on-lent loans and State guarantees administration, supervision of loans for which the creditors were granted State guarantee and repayment of on-lent loans. On-lent loans are granted to finance investment projects included in the Public Investment Programme, to cover debt obligations of social security funds and balance cash flows of these funds, as well as for renovating real estate of the State which has been included into the list of State real estate for refurbishing. Guarantees of the State are granted only for loans used to finance investment projects of the Public Investment Programme.